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PUBLIC SECTOR PENSIONS ADVISORY BOARD

Comments and Advice

in respect of

The Rowan Report

on the Investment of Public Sector Pension Funds

Ontario

Submitted to Murray Elston, Chairman
Management Board of Cabinet
Government of Ontario
July, 1988

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EXECUTIVE SUMMARY

The Public Sector Pensions Advisory Board (the Advisory Board) has been asked by the Chairman of the Management Board of Cabinet to review and advise on the framework for the relationship between public sector employers and employees on pension matters, as set out in the Report of the Task Force on the Investment of Public Sector Pension Funds (the Rowan Report). The Advisory Board also was asked to advise on the Rowan Report recommendations in respect of five public sector pension plans and pension funds:

Ontario Municipal Employees Retirement System *OMERS*
Colleges of Applied Arts and Technology pension plan *CAAT*
Ontario Hydro pension plan *HYDRO*
Hospitals of Ontario Pension Plan *HOOPP*
Workers' Compensation Board pension plan *WCB*

The Advisory Board carried out its own review of the Rowan Report conclusions and recommendations, including the underlying principles and logic. It also obtained the views of representatives of employers/sponsors and employees participating in the specific plans.

In its review, the Advisory Board has come to several fundamental conclusions which greatly influenced its advice on the Rowan Report recommendations.

FUNDAMENTAL CONCLUSIONS

★ The major components of each public sector pension deal should be determined through some kind of consultative process, by the parties involved. The consultative process for each plan should permit as much plan member involvement as is feasible and appropriate in the circumstances of that plan.

★ The Advisory Board agrees with the conclusion in the Rowan Report that some aspects of public sector pension deals are unclear and that clarification of the rights and responsibilities of the parties is highly desirable. Such clarification is best done through consultations between the parties concerned.

★ The concept of the pension deal does not override the legal plan text, but it is very helpful in clarifying and communicating the rights and obligations of the parties to a pension plan, particularly where omissions or ambiguities exist in the plan text. However, much of the plan-specific analysis in the Rowan Report applies too rigidly the Report's pension deal classification system.

★ The Advisory Board believes that its advice in respect of the Rowan Report should be generic, rather than detailed and plan-specific, on the premise that the parties involved in a pension deal are in the best position to work out detailed arrangements.

★ The Advisory Board supports the principle that pensions should be considered in the context of total compensation, but recognizes that this may not be fully achievable where salaries and pensions are decided in separate forums.

★ There is some degree of investment risk sharing in all pension deals. In most instances, it is likely that the preponderance of investment risk lies either with the employer/sponsor or with the plan members. In those major public sector plans which are defined benefit plans with contractual indexing*, the employer/sponsor bears most of the risk. Sharing of the rewards of good investment performance ideally should reflect the extent of risk sharing of poor investment performance. Similarly, the proportions of employer and employee representation on the investment policy making body should reflect the extent of risk sharing.

A minority of the Advisory Board members believes that the extent of risk sharing is difficult to determine in practice and so is not helpful for determining representation on the investment committee or board. Their position is that representation of employers and employees should be equal.

★ The Advisory Board agrees that the taxpayer's interest is an important consideration in public sector plans but notes that the interest of the provincial taxpayer is difficult to define for some plans which are not financed from provincial tax dollars. There are processes in place to ensure that the taxpayer's interest is taken into account, but these processes may not be serving that purpose and should be reviewed. The Advisory Board notes that the taxpayer's interest in respect of public sector employers (as agents of the taxpayer) lies in these employers' full range of activities and services, not just in their pension costs. Public sector employers are accountable for how well they balance their various cost elements in achieving a satisfactory level of service.

★ It should be a priority for the Government to develop principles and guidelines on public sector pension issues and to communicate these to the interested parties so that they can be taken into account at early stages of consultations. The objective is to eliminate the need for, or at the very least, to minimize the likelihood of, a Government veto at a later stage in the process.

★ In addition to providing principles and guidelines to consulting parties, any specific input by the government in consultations should come at an early stage, before trade-offs are made and agreements reached.

ADVISORY BOARD ADVICE ON ROWAN REPORT FRAMEWORK (Chapters 3, 4 and 5)

1. Public sector employers should discuss with employees how to clarify ownership and disposition of a surplus/deficit in the pension fund, if it is not clear from the plan text. It would be helpful to the plans to receive some guidance on the process through which to clarify treatment of surplus as called for by the Pension Benefits Act, 1987 *(re: Rowan Recommendation 3.1)*.

2. It should be up to plan members and employers together to select and implement a pension deal which best suits their needs *(re: Rowan Recommendation 3.2)*.

3. Changes to benefit levels and employee contribution rates should be the subject of a consultative process between employers and employees, preferably in the context of total compensation, where practical. Whether such decisions should be the result of collective bargaining (versus other forms of consultations) warrants separate consideration by the parties *(re: Rowan Recommendation 3.3)*.

* *The pensions of teachers and public servants have legislated inflation adjustments.*

4. Plan members are entitled to be involved in pension fund decision making *(re: Rowan Recommendation 4.1)*.

5. As a general principle, it would be preferable to have a pension fund board of governors, structurally distinct from employers and employees, but with representation from both groups. Such representatives would have fiduciary responsibility for the pension fund *(re: Rowan Recommendation 4.4)*.

   However, the mechanism for, and extent of, plan member representation should be worked out by the parties involved *(re: Rowan Recommendations 4.2 and 4.3)*.

6. The public sector pension system already features large centralized plans. The Government should not further centralize Ontario's public sector pension funds *(re: Rowan Recommendation 4.5)*.

7. It should not be a high priority for the Government to encourage small public sector funds to pool their assets with a large fund *(re: Rowan Recommendation 4.6)*.

8. There is no clear evidence in the Rowan Report supporting the superiority of investment performance by either internal or external investment managers and, therefore, this choice should rest with the pension fund governors of each plan *(re: Rowan Recommendation 4.7)*.

9. The Advisory Board is not aware of any clear evidence supporting a need to be concerned about the compensation levels of internal investment managers of public sector pension funds relative to their private sector counterparts *(re: Rowan Recommendation 4.8)*.

10. Accountability for pension fund performance should be clear. However, there is no one formal process that is appropriate in all circumstances. Rather, the process should be developed for each plan *(re: Rowan Recommendation 5.1)*.

11. Public sector pension funds should go beyond the minimum disclosure requirements of the Pension Benefits Act in making information available to plan members and the public *(Rowan Recommendation 5.2)*.

12. As a general principle, it is preferable to invest pension funds through the market. However, there may be circumstances when investing in non-market government debt would be appropriate, and such non-market investments should not be precluded *(re: Rowan Recommendation 5.3)*.

13. The Government should not direct public sector pension funds to make investments which are not in the financial interest of the funds and their beneficiaries, i.e. which provide for a lower return for a given level of risk, or a higher level of risk for a given level of return. However, pension fund governors should not be precluded from taking into account social or ethical objectives, provided that the primary financial criteria are met *(re: Rowan Recommendation 5.5)*.

14. If the Federal Income Tax foreign property limit of ten per cent for pension fund investments is to be reconsidered, the assessment should address both the financial implications for pension funds, and the broader implications for the economy. Neither the Rowan Report nor the Advisory Board did an analysis of the broader implications on the economy. The Advisory Board is of the view that it is not the appropriate forum to assess and make recommendations on this matter. *(re: Rowan Recommendation 5.6)*.

ADVISORY BOARD ADVICE ON ROWAN REPORT PLAN-SPECIFIC RECOMMENDATIONS

(Chapters 10, 11, 12 and 13)

15. The current arrangements in OMERS have worked well and the parties involved in OMERS are satisfied. This positive situation provides a good opportunity for these parties to clarify how to handle potential future events, e.g. the treatment of surpluses and deficits and the process for changes to the deal *(re: Rowan Recommendations 10.1 and 10.2).*

16. The parties involved in the Colleges of Applied Arts and Technology (CAAT) pension plan should clarify roles and responsibilities. The Colleges should not be obliged to rely on OMERS for plan/fund administration. However, until the roles are clarified no change should be made in the contractual relationship between OMERS and CAAT. The CAAT plan and fund are large enough to be independently managed if this is what the Colleges want. *(re: Rowan Recommendations 10.3, 10.4, 10.5 and 10.6).*

17. It would be preferable to have separate pension fund boards of governors, with plan member representation, for HYDRO, HOOPP and the WCB. However, the nature and extent of employee representation in investment decision making should be worked out between the parties in each plan *(re: Rowan Recommendations 11.1, 12.3 and 13.1).*

18. It is not necessary for the HYDRO plan to be set out in legislation and regulations, nor for HYDRO plan amendments resolved in a collective agreement to be approved by the Government *(re: Rowan Recommendations 11.2 and 11.3).*

19. The Advisory Board does not believe it is part of its mandate to offer assistance in determining how savings arising from any source, including reduced employer contributions to the HOOPP fund, should be allocated *(re: Rowan Recommendation 12.1).*

20. Ownership of surplus in HOOPP, both on an ongoing basis and on plan termination, should be resolved by the parties to the HOOPP plan. If employees have a legal right to a surplus on plan termination, such a right should not be taken away without their consent *(re: Rowan Recommendation 12.2).*

21. There should be a clear separation in the investment policy and accounts of the WCB, between the WCB accident fund and the WCB pension fund. However, separate investment managers should not be necessary *(re: Rowan Recommendations 13.1 and 13.2).*

22. The government approval process for amendments to pension plans, including the WCB and other plans, is unduly cumbersome and lengthy. The Government should consider whether the process can be streamlined *(re: Rowan Recommendation 13.3).*

SECTION I ~ INTRODUCTION

THE MINISTER'S REFERRAL AND HOW THE ADVISORY BOARD RESPONDED

Terms of Reference

This report of the Public Sector Pensions Advisory Board (the Advisory Board) responds to a letter of referral from the Chairman of the Management Board of Cabinet, dated February 11, 1988 *(see Appendix A)*. In his letter, the Minister asked the Advisory Board to provide him with its views and recommendations on several matters contained in the Report of the Task Force on the Investment of Public Sector Pension Funds (the Rowan Report).

The Minister asked the Advisory Board for comments on the Rowan Report findings and recommendations regarding the relationship between public sector employers and employees on pension matters. This framework is set out in Chapters 3, 4 and 5 of the Rowan Report.

The Minister also asked the Advisory Board for guidance on the Rowan Report recommendations concerning the Ontario Municipal Employees Retirement System (OMERS), the Ontario Hydro pension plan (HYDRO), the Hospitals of Ontario Pension Plan (HOOPP), and the Workers' Compensation Board (WCB) pension plan. These plans are covered in Chapters 10 (which also addresses the relationship between OMERS and the Colleges of Applied Arts and Technology (CAAT) pension plan), 11, 12 and 13 of the Rowan Report.

The Minister informed the Advisory Board that the Government had established a special consultation process concerning the Superannuation Adjustment Benefits issues, directed by Dr. David Slater. Because these issues relate specifically to the pension plans for teachers and public servants, the recommendations in the Rowan Report relating to these plans were not referred to the Advisory Board.

The Minister requested the Advisory Board to report to him by July 31, 1988, which is the same timing as given to Dr. Slater.

Advisory Board Review Process

The Advisory Board has given thorough consideration to the conclusions and recommendations in the Rowan Report, including an assessment of the principles and logic which underlie them.

To assist in its review, the Board also obtained the views of representatives of employers, sponsors or administrators (referred to as employer groups) and employees (referred to as employee groups) participating in the specific plans *(for a list of interested parties see Appendix E)*. The positions taken on individual recommendations by those providing comments are summarized in chart form in Appendix F.

Structure of Advisory Board Advice

The Advisory Board's report is structured in the following way.

The remainder of Section I identifies several fundamental conclusions of the Advisory Board.

In Section II, the pension deal framework set out in Chapters 3, 4, and 5 of the Rowan Report is addressed. For each of these three chapters, the essence of the Rowan Report approach is presented. The comments received from interested parties are then summarized. The Advisory Board's general comments are outlined, and its advice or response is set out for each Rowan Report recommendation.

Section III covers Chapters 10, 11, 12 and 13 of the Rowan Report, which contain the plan-specific recommendations. For each of the five public sector pension plans addressed in these chapters, this section provides a brief factual summary of the plan and the associated pension fund, and an overview of the Rowan Report observations and conclusions. Any comments the Advisory Board received from interested parties are

then summarized. The Advisory Board's advice or response is set out for each of the Rowan Report recommendations on that plan.

The appendices include the Minister's letter of referral to the Board; the Advisory Board's mandate and membership; an explanation of how the pension deal can be clarified; summary charts on the Rowan Report conclusions and recommendations and of the Advisory Board's advice; a list of interested parties which provided comments; and summary charts on these comments, listed by recommendation.

The Executive Summary conveys the key elements of the Advisory Board's comments and advice. For completeness, it should be read in the context of the full report.

FUNDAMENTAL CONCLUSIONS

In its review, the Advisory Board has come to several fundamental conclusions about the matters addressed in the Rowan Report. These fundamental conclusions greatly influenced the Advisory Board in its advice on the recommendations in the Rowan Report.

Consultation

The Advisory Board is of the view that major components of a public sector pension deal, including such matters as benefit levels, contribution rates and investment policy, should be determined through some form of consultative process, not unilaterally by the employer or plan sponsor. Regardless of the type of plan, there is a shared interest between employers and employees, and involvement of employees in decision making is therefore desirable and appropriate in all cases. The extent and nature of involvement by employees and their representatives should be determined separately for each plan, in light of the type of pension arrangement and the wishes of the parties. However, as a general principle, the consultative process for each plan should permit as much plan member involvement as is feasible and appropriate in the circumstances of that plan.

Clarification

It is very desirable for all components of a pension deal to be clear and easily understood by all parties. This is not now the case in many, if not all, public sector pension plans *(also see Appendix C)*. A high priority should be placed on clarifying these pension arrangements so that the rights and responsibilities of all parties are apparent. Clarification is best achieved through consultations between the parties concerned.

The Advisory Board recognizes that it may not always be appropriate to specify all aspects of the deal in the plan text (e.g. ad hoc inflation adjustments). Nevertheless, it would be helpful to clarify how these non-specified aspects of the deal would be affected by changing circumstances.

Pension Deal

The concept of the pension deal does not override the legal plan text, but is very helpful in clarifying and then in communicating the rights and obligations of the parties to a pension plan, particularly where omissions or ambiguities exist in the plan text, i.e. if ad hoc adjustments have been sufficiently stable and predictable, then members/sponsors may reasonably expect these adjustments to continue as in the past, unless dramatic new events unfold. The pension deal concept is useful not only in addressing the current situation but in anticipating how to approach possible issues which may arise in the future.

However, in the Advisory Board's view, much of the plan-specific analysis in the Rowan Report applies too rigidly the Report's pension deal classification system.

Generic Advice

The Advisory Board believes that its advice should be generic, rather than detailed and plan-specific, on the premise that the parties involved in a pension deal are in the best position to work out detailed arrangements.

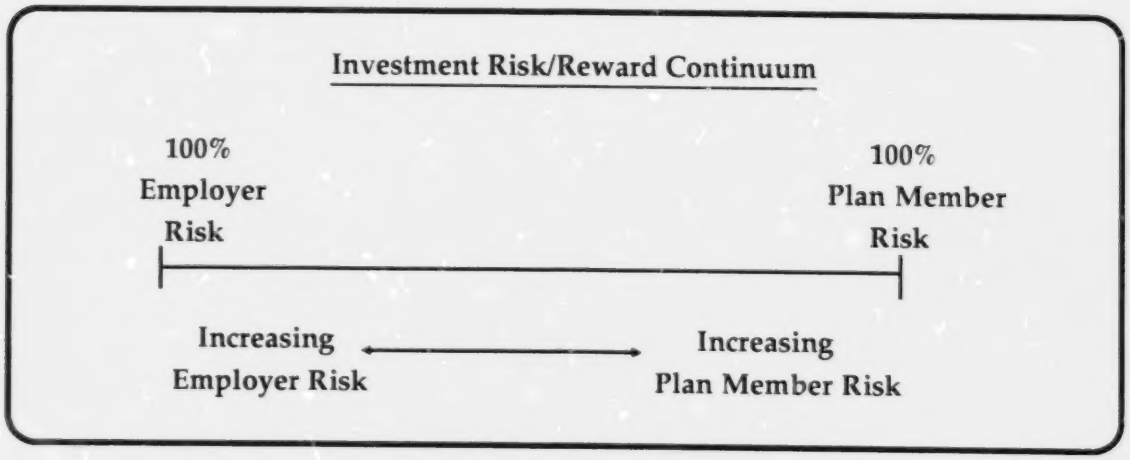
Total Compensation

The Advisory Board supports the principle that pensions should be considered in the context of total compensation, but recognizes that this may not be fully achievable where salaries and pensions are decided in separate forums.

Risk/reward sharing

Regardless of the type of pension deal, there is some degree of investment risk sharing in all cases. Even in a defined benefit plan with contractual indexing, where the employer guarantees the benefit, the plan members share to some extent in the risk that the benefits may not be secure, or in the risk that contribution rates may have to be raised or future benefits reduced, to pay for poor investment experience. Moreover, when the employer pays the initial cost of adverse investment experience through higher contributions, at least some of this extra cost may be passed on to employees through subsequent decisions about the level of their total compensation package.

This sharing of investment risk can be portrayed as a continuum, as in the following figure, with 100 per cent employer risk at one extreme, and 100 per cent plan member risk at the other extreme.



Individual pension deals occupy different points on this continuum, depending on the extent to which investment risk is shared between employers and plan members. Although there is some degree of risk sharing in all pension deals, in most instances it is likely that the preponderance of investment risk rests either with the employer/sponsor or with the plan members. In those major public sector plans which are defined benefit plans with contractual indexing, the employer/sponsor bears most of the investment risk.

Ideally, sharing of the rewards of good investment performance should reflect the extent of sharing of the risk of poor investment performance. Similarly, the proportions of employer and employee representation on the investment policy-making body should reflect the extent of investment risk sharing.

A minority of Advisory Board members believe that the extent of risk sharing is difficult to determine in practice and so is not a clear guide for determining representation on the investment committee or board. Their position is that representation of employers and employees should be equal.

Taxpayer's Interest

The Advisory Board agrees that the taxpayer's interest is an important consideration in public sector pension plans - somewhat analogous to the shareholder's interest in a private sector pension plan. However, the Advisory Board notes that the interest of the provincial taxpayer is difficult to define for some plans which are not financed by provincial tax dollars. For example, the employer contributions to the HYDRO plan come from revenues generated by the sale of electricity.

For all of the public sector plans reviewed, aside from HOOPP, there are formal approval processes to ensure that the taxpayer's interest is taken into account. However, these processes may not be serving that purpose and should be reviewed.

The Advisory Board notes that the taxpayer's interest in respect of public sector employers (as agents of the taxpayer) lies in these employers' full range of activities and services, not just in their pension costs. Public sector employers are accountable for how well they balance their various cost elements in achieving a satisfactory level of service.

Principles and Guidelines

It should be a priority for the Government to develop principles and guidelines on public sector pension issues and to communicate these to interested parties so that they can be taken into account from the initial stages of consultations. The objective is to eliminate the need for, or at the very least, to minimize the likelihood of, a Government veto at a later stage of the approval process.

These conclusions of the Advisory Board offer a starting point for the development of such principles and guidelines.

Government Approvals

In addition to providing principles and guidelines to interested parties, any specific input by the government in consultations relating to a particular pension plan should come at the initial stage, before trade-offs are made and agreements reached.

SECTION II ~ PENSION DEAL FRAMEWORK

INTRODUCTION

Chapters 3, 4 and 5 of the Rowan Report provided the framework for its examination of, and conclusions and recommendations on, public sector pension plan investments. The Report focussed on the investment aspect of public sector pension plans but included in its review other components of the pension deal, such as plan member benefits.

Chapter 3, The Pension Deal, was central to the Rowan Report because it developed the general framework. Although it contained only three recommendations, Chapter 3 included several significant conclusions which were integral to the framework. In order to address all of the pertinent components of the Rowan Report recommendations, the overview and Advisory Board's comments on Chapter 3 are more extensive than those on other chapters. Most of the Advisory Board's fundamental conclusions have been developed through discussions on this chapter.

Chapters 4 and 5 of the Rowan Report addressed Pension Fund Structure and Investment Policy, respectively, and were more directly related to the investment aspect of pensions. Chapter 4 covered the investment structure and management of public sector funds and introduced the term pension fund governors to refer to those with overall responsibility for the fund. Chapter 5 looked at where, how and in whose interest the funds should be invested.

THE PENSION DEAL

Rowan Report Overview

The key concept in Chapter 3 of the Rowan Report, and the remainder of the report as a whole, was the "pension deal", which the Report defined as the statement of the pension promise by an employer and the means by which that promise will be fulfilled.

A pension deal may be of several types, ranging from defined benefit, in which the employer/plan sponsor bears the investment risk, to asset related, in which the employee bears the investment risk. The Rowan Report classified all of the major public sector pension plans as the defined benefit type, with contributions from both the employer and the employees.

An underlying premise in the Rowan Report was that the party who bears the investment risk should receive the investment reward. Also, that party should control pension fund decision making - although there should be involvement from both sides since both have an interest in the security of the fund.

The Report set out eight components of the pension deal: membership criteria, benefits policy, funding policy, ownership of a surplus/deficit, pension fund structure and control, investment policy, plan administration and changing the pension deal.

A distinction was made between the formal deal, as found in the plan text/legislation, and the informal deal, which results from past practice, implicit expectations and prevalent understandings.

When the formal deal was not explicit about all aspects of the pension deal, the Rowan Report stated this could lead to imperfect understandings about the nature of the deal and fundamental disagreements about what the deal is and what it ought to be. For that reason, the pension deal should be clarified.

The Rowan Report noted that misunderstanding and fundamental disagreement are common with respect to the question of ownership of surplus/deficit. The disposition of the surplus/deficit is an important element of the pension deal because the determination of ownership helps to answer the basic question: In whose interest are pension fund investments made? Since investment performance could contribute to a pension fund surplus/deficit, there is a direct link between pension fund investment and the issue of who owns the surplus/deficit.

The Report noted that, in varying degrees across the public sector plans, the Government plays seven major roles with respect to public sector pension plans and that, at times, these may be in conflict. *(Also see Appendix D.)*

Of all the parties interested in the way public sector pension funds are invested, in the view of the Rowan Report only the taxpayer and the plan member are principals. All others are agents of one group or another. Since public sector employers are agents of the taxpayer, the taxpayer, as well as the plan member, has a stake in the investments of public sector pension funds.

Comments from Interested Parties

Employee representatives that responded to the Rowan Report were generally dissatisfied with the pension deal framework. They regarded it as a faulty model. The fact that real pension deals do not fit into the Rowan Report ideal pension moulds is the fault of the model, not of reality. All employee groups stated that surplus belongs to plan members, regardless of whether or not they supported the Rowan Report recommendation aimed at clarifying the ownership of surplus and the underlying principle of the pension deal.

The Rowan Report recommendation that pension benefits be negotiated or discussed as part of total compensation was accepted in principle by employee groups. They stressed, however, that pensions must be negotiable. CUPE was particularly disappointed that although the Rowan Report noted that it may be difficult to ensure that employers do not pass on increased pension plan cost to employees in subsequent wage settlements, the Report's recommendations ignored this and any economic risk that employees may already bear.

Employers, sponsors and plan administrators*, on the other hand, all supported the Rowan Report concept of the pension deal and felt that it may be helpful in the surplus ownership issue. While most employer groups believed that surplus belongs to the employer, OMERS requested that the government provide leadership for the process of clarifying surplus ownership in plan documents, as suggested in the Rowan Report. Further, employer groups supported the Rowan Report recommendation that the employer should be willing to discuss changes to the pension plan if the employees indicate a desire to change the deal. Generally, employers felt that mechanisms currently exist to handle desired changes.

Employer groups responded favourably to the idea of negotiating pensions as part of total compensation. It was noted that it might be difficult in a multi-employer environment, but not impossible. Certain repercussions were cited. Specifically, the arbitration process might hand out awards that will affect the pension fund and in turn take control away from the fund trustee. Also, separate plans for bargaining unit employees and non-bargaining unit employees might be required in order to protect the interests of both parties.

Most employee groups were concerned with the Rowan Report conclusion that the taxpayer's interest has not been adequately considered. Employees stated that the taxpayer's interest has always been taken into account. CUPE questioned the Rowan Report conclusion that reduced employer contributions would offset the taxpayer's costs. No studies have been done to suggest that this conclusion is true. Employees felt that the taxpayer benefited when pension benefit improvements were paid out of surplus rather than increasing employer contributions. *(Also see Appendix F.)*

* *Herein referred to as employer groups.*

Advisory Board Comments

General Comments

The Advisory Board believes that clarification of the pension promise is important and, in this context, supports the Rowan Report concept of the pension deal. The Advisory Board interprets the concept of the pension deal to mean communication and clarification of all aspects of the pension plan provisions through the involvement of all parties to the pension promise or deal. Although the pension deal concept does not override the legal plan text, in the long run, clarification of the pension deal will protect the interest of all parties and lead to better relations between employers and employees on pension matters.

The Advisory Board (apart from one member) is not comfortable with the Report's premise that risk is borne almost entirely by the employer in all defined benefit plans. The Advisory Board shares the view of many interested parties that commented on the Rowan Report, that there is some element of risk sharing, implicit or explicit, by the parties in all types of pension plans. It is likely the case that the employer bears the preponderance of the risk in a defined benefit plan (especially if the plan is contractually indexed), and employees bear the preponderance of the risk in an asset related or defined contribution plan. Nevertheless, most parties agree that some portion of the investment risk is always shared. No one knows, however, exactly what the level of sharing is, i.e. where the plan is on the risk/reward continuum *(also see Investment Risk/Reward Continuum, page 3)*, and it is difficult to get quantifiable evidence on this relationship.

The Advisory Board observes that the level of risk/reward sharing is not only transferable between the employer and the plan members but also between individual plan members and the employee group as a whole. An example of this latter situation is that whereas the risk of an adequate pension is borne by individual employees in a defined contribution plan, in a defined benefit plan there are cross subsidies of risk sharing between, for example, younger and older employee groups, between shorter-service and longer-service employee groups and among actives, retireds and deferreds.

Because this risk/reward sharing could vary significantly with each plan, and even within one category such as the contributory defined benefit type, the Advisory Board believes it is important that the parties to each individual pension deal should be the ones to work out what the deal is, and if and how it should be changed, in wording or in practice.

Ideally, sharing of the rewards of good investment performance should reflect the extent of sharing of the risk of poor investment performance. Similarly, the proportions of employer and employee representation on the investment policy-making body should reflect the extent of investment risk sharing.

A minority of Advisory Board members believe that the extent of risk sharing is difficult to determine in practice and so is not a clear guide for determining representation on the investment committee or board. Their position is that representation of employers and employees should be equal.

The Advisory Board believes the concept of the pension deal can have practical application by the parties in examining what the pension plan is; what it provides; what it promises both in the formal plan text, or legislation where applicable; what has been provided in practice; what understandings are prevalent; what the true financial status of the plan is; and so on.

If changes are required as part of the clarification of the deal, they should be decided upon by the parties to the deal, through a consultative process. The Advisory Board believes that plan members have a place in decision making concerning benefit policies, administration and investments.

The timing is now ideal for a thorough examination of the pension deal by all parties. Most plans are now in a surplus position and it is important to have these discussions and clarifications about the nature of the deal before plans make major changes to the terms and conditions and/or have to deal with plan deficits. Further, public sector plans are now being reviewed and discussed for required amendments associated with pension reform, possible mandatory inflation protection, and tax reform - with its complicated benefit and administrative implications. The Advisory Board considers that the surplus review would be less awkward if conducted as part of this bigger review of the pension deal that is now ongoing.

It may not be possible to reach agreement on all aspects of the pension deal because the strategic interests of the parties must be taken into account. Employers' and employees' views may diverge and the notion may be naive that by discussion they can reach agreement. Failure to reach agreement will be frustrating for the parties.

Nevertheless, timing, clarity, protection of the interests of parties and a basis for the future of the pension plan all point to the need for the parties to talk and the Advisory Board fully supports and encourages a dialogue between the parties.

Comments on Rowan Report Conclusions/Recommendations

CONCLUSION

The Government should act like the employer when it is the employer.

The Advisory Board recognizes that the Government has many roles with respect to public sector pension plans. In addition to the seven roles identified in the Rowan Report, a further consideration is the politics confronting the governing party at any point in time. All of this makes it difficult for the Government to act as employer unfettered by other considerations. The Advisory Board feels that the role of employer is a special role for the Government when dealing with its own pension plan. In its employer role, the Government faces, as does a private sector employer, competing demands between good personnel practices and operating budgets. While the Government has to answer to the taxpayer, the private sector has to answer to the shareholder. The Advisory Board advises the Government that when acting as the employer, it should follow the approach of the private sector and not try to resolve its employer issues through political/legislative action.

CONCLUSION

> The taxpayer's interest should be adequately taken into account in pension fund decision making;
>
> The cost to the taxpayer of providing public sector pension benefits should be as low as possible; and
>
> The taxpayer should not be asked to assume a disproportionate share of the risk (i.e. liability) of providing a pension.

The Advisory Board shares the Rowan Report concern about the taxpayer's interest in public sector pension plans but notes that the interest of the provincial taxpayer is difficult to define for some plans which are not financed from provincial tax dollars. The Advisory Board is in general agreement with the Rowan Report conclusions. The Advisory Board agrees that the taxpayer's interest should be adequately taken into account in terms of an appropriate sharing of risk and rewards of the pension fund. In supporting the conclusions, the Advisory Board assumes that by "keeping the cost to the taxpayer as low as possible" the Rowan Report means within the guidelines of competitiveness and prudence, not in the absolute sense.

The Advisory Board notes that the interest of the provincial taxpayer is difficult to define for some plans which are not financed by provincial tax dollars. For example, the employer contributions to the HYDRO plan come from revenues generated by the sale of electricity.

Public sector employers as agents of the taxpayer must make an informed judgement about the taxpayer's concern on pension costs and the costs of the delivery of public services. This means reaching an acceptable balance of the costs of public services, whether it be, for example, for health care, municipal services or pensions for employees.

The Advisory Board notes that the present government review and approval process for several of the major plans already provides the opportunity, at several levels, for consideration of the taxpayer's interest. These levels include: discussion at the plan level with ministry representation on the committees; discussion of plan amendments at the ministry level before being sent to the Management Board of Cabinet for approval; Management Board of Cabinet review with input from several ministries; the Public Sector Pensions Advisory Board review, on referral from the Chairman of Management Board; Cabinet approval and/or the Legislature.

It should be noted that this multi-staged review and approval process varies from plan to plan, by practice and by statute. For example, HOOPP, whose plan text is not in legislation, does not require direct review or approval at any one of these stages. By contrast, the public service, teachers' and municipal employees' plans are in legislation and require approval at all levels.

The Advisory Board believes that to meet the concern about the taxpayer's interest, there should be a review of the existing approval stages to determine whether they are addressing that need.

As an observer of these mechanisms, the Advisory Board recognizes that instead of after-the-fact approvals or vetoes, up front guidelines should be used to bring the taxpayer's interest to bear on public sector pension plans. General principles and guidelines on public sector pension issues should be developed and communicated to all the parties to the major public sector plans in advance of the parties' discussions on plan amendments. The objective is to eliminate the need for, or at the very least, to minimize the likelihood of, a Government veto at a later stage of the process. To be effective, these principles have to be as specific as possible, especially with respect to the context of cost. As noted earlier, several principles can be developed from the conclusions the Advisory Board has reached in its review of the Rowan Report. To be further helpful, an outline of the amendment and approval process, from discussion with ministry representatives to legislative approval, should be communicated to the parties.

If this approach of introducing government principles and guidelines at the initial stage proves successful, it may not be necessary to have legislation requiring a formal government approval of plan changes.

Another suggestion by one Advisory Board member to help reduce the likelihood of a Government veto is for the consulting parties to have access to a forum for testing out proposals before they are agreed upon as part of a package. Management Board is seen as the key forum.

RECOMMENDATION 3.1

Public sector employers should review their pension deal to determine whether the component of the deal relating to ownership of a surplus (deficit) is clear. Where this component is not clear (or clear but not agreed to)*, public sector employers should discuss changes to the deal with employees to make this component clear.

* Advisory Board addition for completeness.

RELATED CONCLUSION

Pension deal should spell out clearly who owns what and under what circumstances.

The Advisory Board agrees that public sector employers should review the ownership of the surplus/deficit and then discuss this component (like any other) with plan members, or their representatives, with a view to understanding and clarifying it, if it is not clear. In some cases the plan documents may be silent on surplus ownership and in some cases explicit. Regardless, the subject of ownership should be aired with a view to making the deal on surplus/deficit ownership as explicit as possible. Changing environments, i.e. inflation, plan deficits and now surpluses, in the last ten years or so have precipitated the need for all aspects of the pension deal to be rethought, clarified and made explicit where possible. Addressing plan changes in future altered environments could be made easier by making the deal explicit now, especially with respect to the surplus/deficit.

The Advisory Board recognizes that, more than any other area, the issue of ownership of a surplus and responsibility for a deficit may be a difficult one on which to reach and then to implement an agreement. However, this is also a high priority area to resolve, before future discussions regarding the deal and changes to it take place.

The Advisory Board notes that the Pension Benefits Act, 1987 (Section 10(1)(11)) requires that the plan text specify the treatment of surplus on both an ongoing and wind up basis. If no wording is in the plan text by January 1, 1989, Section 80 says the surplus on plan termination arising after December 31, 1986, will be deemed to belong to employees.

What might be helpful to plans is a suggested process, as a starting point for discussions, regarding the issue of a surplus and the responsibility for a deficit. In consultations with the plans on this referral, the Advisory Board received a request from OMERS for some assistance in this area - some guidance or direction on the process through which to clarify treatment of surplus.

The Advisory Board suggests that the Chairman of Management Board could provide some direction by initiating a process for the plans' reviews of surplus disposition. This could take the form of a coordinated consultation, possibly with help from the Advisory Board, with the employer/sponsor and plan member representatives.

RECOMMENDATION 3.2

Public sector employers should be amenable to discussing changes to the current (type of)* pension deal with their employees if their employees indicate a desire for change.

*Advisory Board clarification

RELATED CONCLUSION

The process for changing the pension deal should be clear and not cumbersome.

The Advisory Board agrees with the Rowan Report that it should be up to plan members and employers together to select a pension deal which best suits their needs.

The Advisory Board notes that employees are showing greater interest in benefit choices and flexibility and supports this trend toward flexibility in pension plan design.

As a general principle, the Advisory Board supports the consultative process as the means for considering any significant changes to the pension deal - including changes to the type of pension plan or changes within the benefit design.

The Advisory Board concurs with the Rowan Report conclusion that the process for changing the pension deal should be clear and not cumbersome.

(See also general Board comments on the pension deal,the consultative process and the taxpayer's interest on pages 8 to 10.)

RECOMMENDATION 3.3

To the extent possible, benefit and employee contribution levels should be negotiated or discussed between the employer and employees as part of total compensation.

RELATED CONCLUSION

Within a particular pension deal, elements such as benefit and funding levels should be considered as part of total compensation.

Again, as a general principle, the Advisory Board supports the consultative process for making any changes to the pension plan.

Further, the Advisory Board supports the principle that pensions should be considered in the context of total compensation but recognizes that this is not always completely achievable where salaries and pensions are decided in separate forums (e.g. teachers, HOOPP and OMERS).

To be realistic, the Advisory Board would like to note that a total compensation approach has not been typical in the past for public sector plans. While one way of achieving this would be through full collective bargaining, where this is neither practical nor appropriate, there are a number of other means of working toward the objective of this recommendation. For example in the case of the TSF, a free exchange of information on salaries and pensions between school boards and the Ministry of Education could assist the negotiations on these separate elements. Analogies could be drawn for the hospitals and the municipalities.

The taxpayer stands to benefit by having a clear and full set of facts on total compensation and may also stand to benefit from reduced costs (taxes) if either salaries and/or pension costs were constrained as a result of total compensation discussions.

For this reason, the Advisory Board points out that while the consultative process would be more complex in the context of total compensation, every effort should be made to recognize total compensation for purposes of cost management and the taxpayer's interest.

The Rowan Report raised the issue of collective bargaining as an explicit process for changing the deal. Although it commented briefly on collective bargaining, it did not make an explicit recommendation, leaving it to other reviews.

The Advisory Board recognizes that the issue of collective bargaining is vitally important to many plan members at this time and it advises that this is a legitimate option that warrants separate consideration by the parties.

An examination of the issue of "negotiation" of pensions should be considered in the broader context of other examinations taking place in the government e.g. review of the Crown Employees Collective Bargaining Act, the Public Service Act, the Report of the Colleges Collective Bargaining Commission (Gandz Report), and the Weiler Report on bargaining for professionals in the public service. *(Also see Advisory Board comments on Recommendations 11.2 and 13.3.)*

PENSION FUND STRUCTURE

Rowan Report Overview

The Rowan Report identified the following components of pension fund structure: the organizational structure and the responsibility for the selection and appointment of pension fund governors (those who have overall responsibility for, and decision-making powers in respect of, a pension fund) and of other investment decision makers and advisors.

The type of pension deal has implications for who determines pension fund structure. If the liability to fund a deficit is the determining factor, the employer/plan sponsor should determine pension fund structure in a defined benefit related deal. However, plan members should be involved in pension fund decision making even in defined benefit deals.

The Rowan Report stated that there are many ways to structure a pension fund, and no one structure is right for all circumstances. However, as a general principle, the structure for pension fund decision making should be distinct from employers and employees - although representatives of both groups should be involved. Pension fund governors have a fiduciary responsibility to all fund beneficiaries, not just to the group from which they are chosen.

The public sector pension system in Ontario already is quite centralized (e.g. OMERS, TSF, HOOPP) and there should not be any further centralization of pension funds.

The Report found no conclusive evidence that internally managed funds investing through the capital market have performed better or worse than externally managed funds. Therefore, there should be no general policy favouring either internal or external investment management; the choice should be with the governors of each pension fund. Internal investment managers of public sector pension funds should receive compensation similar to that of internal managers of private sector pension funds.

Comments from Interested Parties

Employee groups were generally supportive of the Rowan Report recommendations that suggested a minority of employee representatives be appointed to pension boards or investment committees, where appropriate. They were, however, strongly opposed to only minority representation, as it was not an appropriate starting point. Most requested at least equal representation. Implementing minority employee representation for the OMERS Board would require a reduction in the current level of employee representation. The employee groups objected to this conclusion, arguing that the current OMERS Board functions well and meets the needs of both its employers and employees.

Most employer groups were receptive to the Rowan Report recommendations aimed at minority employee representation on pension boards or investment committees, although the OMERS Board reiterated employee concerns about changing the present representation on the Board. Other employer groups expressed concern that while they were pursuing employee representation on investment committees, it should be done in the most effective way. Employers said they were also concerned that employee involvement may lead to the pursuit of social investing.

Ontario Hydro opposed the idea that employee representatives be appointed to their board and the Rowan Report recommendation that the employer and employees be separated from fund activities.

Employee and employer groups that commented on the remainder of the recommendations in Chapter 4 of the Rowan Report generally supported them, although they did not elaborate. *(Also see Appendix F .)*

Advisory Board Comments

General Comments

In Chapter 4 of the Rowan Report, the emphasis was on pension fund structure for governance and investment. The Report observed correctly that in the public sector the employer/plan sponsor has determined the pension fund structure and has been the surrogate for plan members in defined contribution plans.

The Advisory Board believes that plan members should be involved in the decision-making process of pension funds and pension plans, with the extent of the involvement being decided by the parties involved. The Advisory Board concludes that regardless of the type of plan, there is risk sharing by the employer and plan members.

Ideally, sharing of the rewards of good investment performance should reflect the extent of sharing of the risk of poor investment performance. Similarly, the proportions of employer and employee representation on the investment policy-making body should reflect the extent of investment risk sharing.

A minority of Advisory Board members believe that the extent of risk sharing is difficult to determine in practice and so is not a clear guide for determining representation on the investment committee or board. Their position is that representation of employers and employees should be equal.

Comments on Rowan Report Recommendations

RECOMMENDATIONS 4.1, 4.2 and 4.3

> Public sector employers/plan sponsors should involve plan members in plan administration and investment management and, in appropriate circumstances, should appoint plan members as pension fund governors *(Recommendation 4.1)*
>
> Where the organizational structure of the pension fund in a defined benefit related pension deal is separate from the employer/plan sponsor (e.g. OMERS), a minority of the pension fund governors should be plan members *(Recommendation 4.2)*.
>
> Where the organizational structure of the pension fund in a defined benefit related per ion deal is not separate from the employer/plan sponsor (e.g. HYDRO, HOOPP and WCB), the employer/plan sponsor or the pension fund governors should appoint a minority of plan members to its investment committee *(Recommendation 4.3)*.

The Advisory Board supports the principle that plan members are entitled to be involved in pension fund decision making, and therefore agrees in general with Recommendation 4.1. The Board notes that the reference to plan administration in this recommendation confuses the overall context, which is investment decision making.

The Advisory Board neither supports nor opposes the specific arrangements proposed in Recommendations 4.2 and 4.3 because it believes that the mechanism for, and extent of, plan member representation should be worked out by the parties involved *(also see Advisory Board comments on Recommendation 4.4)*.

RECOMMENDATION 4.4

> To the extent practical, public sector pension funds should be organized so that their activities are clearly separated from the employer and the employees.

The Advisory Board understands that the intent of this recommendation is that the responsibility for the pension fund should be organizationally distinct from the employers and employees, not that employers and employees should not participate as governors or investment managers. In addition, custody of the fund and the pension accounts should be clearly separated from the affairs of the employers and employees. With this interpretation, the Advisory Board concurs with the recommendation.

The Advisory Board advises that, as a general principle, there should be a pension fund board of governors, which is structurally distinct from the employer or sponsor and from employees. Representatives of the employer/sponsor and of plan members should be appointed to such a board.

However, the Advisory Board accepts that such a structure may not be deemed appropriate by the parties to a particular pension deal. In such cases, other means of achieving the objective set out in this recommendation may be adopted. A key criterion is that those responsible for the pension fund have fiduciary responsibilities and cannot be wholly employer or employee representatives. *(Also see Advisory Board comments on Recommendations 4.1, 4.2 and 4.3.)*

RECOMMENDATION 4.5

> The Government should not further centralize public sector pension funds. The existing large funds should continue to operate as separate and independent funds.

The Advisory Board supports this recommendation, recognizing that there already is a fair degree of centralization of public sector pension assets, with six of the funds having approximately 83 per cent of total public sector pension fund assets.

RECOMMENDATION 4.6

> The Government should encourage smaller public sector pension funds to pool their assets for investment purposes with a larger public sector pension fund so that they can benefit from lower investment management costs and potentially more diversified investment opportunities.

The Advisory Board has no objection in principle to permitting small funds to obtain investment management services from larger funds. However, the Advisory Board does not view this as a high priority for government action and does not advise the Government to pursue this recommendation, for the following reasons:

The investment management of many or even most small funds already is pooled through insurance companies or similar arrangements (albeit probably at higher management fees than they might arrange with a large public sector pension fund). Therefore, they already are obtaining some advantages of economies of scale.

This approach is not likely to be attractive or even acceptable to any of the large plans. For example, if the small funds had a different liability structure from the large plan, they might require a different investment policy. This would probably require a segregated fund, at a high administrative cost to the large fund.

It is not apparent how the Government could promote this approach without appearing to interfere in the management either of the large funds, the small funds, or both.

RECOMMENDATION 4.7

> The decision to select and appoint internal or external investment managers for public sector pension funds should rest with pension fund governors.

The Advisory Board concurs with this recommendation. There was no clear evidence in the Rowan Report that supported the superiority of investment performance by either internal or external investment managers. There is therefore no basis for a general government policy regarding whether fund managers should be internal or external. This choice should rest with the governors of each pension fund.

RECOMMENDATION 4.8

> Public sector pension funds should review their compensation policies for their internal investment managers with a view to ensuring that they are in line with the compensation policies for internal investment managers of private sector pension funds.

The Advisory Board is not aware of any evidence supporting a need to be concerned about the compensation levels of internal managers of public sector pension funds, particularly since their investment performance in general appears to have been within the same range as that of private sector funds. The Advisory Board therefore does not believe it is necessary for the Government to act on this recommendation at this time. If it is demonstrated that a problem has developed in recruiting and retaining good internal investment managers, then it would be appropriate to reassess compensation policies and levels.

INVESTMENT POLICY

Rowan Report Overview

The Rowan Report noted that the choice of investment policy is a reflection of the level of risk that pension fund governors are prepared to assume, in order to achieve a desired rate of return. A higher level of risk is expected to produce a higher rate of return over the long term, but with greater year-to-year variation in the returns. Decisions on investment policy are made in the interest of the party or parties who bear the risk of the variable investment return.

The Pension Benefits Act, 1987, established a prudent person test as the basis for investment decision making. For a given level of risk, investments should be expected to earn a commensurate return. Pension fund governors are accountable to the employer/plan sponsor, to plan members and to the Pension Commission for ensuring an appropriate investment policy is prudently implemented.

The Rowan Report assessed whether the current investment policy for the TSF and PSSF is appropriate. In light of this review, the Report concluded that public sector pension funds should not invest in non-market government debt.

The Report concluded that pension fund governors should be free to make investments which seek to achieve social or other objectives so long as the financial rate of return goal remained paramount and there was no concessionary investing. Moreover, the Government should not direct pension funds to pursue a particular social or economic objective; rather, the Government should provide incentives to attract such investment. The Report supported raising the current 10 per cent limit on foreign investments by pension funds.

Comments from Interested Parties

In general, employee groups were supportive of the Rowan Report recommendations on investment policy. None elaborated on the details but one group requested that fund information be available at all times during the year rather than annually *(as suggested by Recommendation 5.2)*, to better facilitate its own needs. Where the Rowan Report recommended that the Government not direct public sector pension fund investments, one employee group supported government-directed investments.

All employer groups that responded to the Rowan Report investment policy recommendations supported them. Employers felt that the statement of investment policies and goals, as required by the Pension Benefits Act, 1987, would be helpful and would force investment managers to be more accountable, a principle that the Rowan Report supported. Not all employer groups were concerned with raising the 10 per cent foreign property limit imposed by the Federal Government on pension funds *(as suggested by Recommendation 5.6)*. However, one group that supported the recommendation stated that it was a prudent investment strategy to allow investment managers to invest increased amounts of pension fund assets internationally. *(Also see Appendix F.)*

Advisory Board Comments

Comments on Rowan Report Recommendations

RECOMMENDATION 5.1

> Public sector pension fund sponsors should ensure that a formal process of holding pension fund governors accountable is in place.

The Advisory Board supports the principle that accountability for fund performance should be clear. Fund governors are accountable to all beneficiaries, and this accountability can be assured through adequate disclosure of fund information *(also see Advisory Board comments on Recommendation 5.2)*. However, no one "formal process" is appropriate in all circumstances; rather, the process should be developed in relation to the individual circumstances of each plan.

RECOMMENDATION 5.2

As an instrument of accountability, public sector pension fund governors should provide full information about the fund annually to plan members, and should make this information available publicly for the benefit of the taxpayer.

RELATED CONCLUSION

The Task Force encourages Ontario public sector pension funds to develop an appropriate reporting format with a degree of consistency across funds.

The Advisory Board concurs with this recommendation, noting that it goes beyond the existing minimum requirements of disclosure under the Pension Benefits Act, 1987.

Examples of the type of information which might be provided include:

- statement of investment policy
- description of investment performance in relation to investment policy
- assets held by the fund (by type, summarized and in detail)
- the composition and roles of decision-making and advisory bodies, and external investment managers.

The Advisory Board interprets the phrase "publicly available" to mean, for example, tabling documents in the Legislature, making information directly available to plan members, or releasing an annual report through the media.

The Advisory Board concurs with the related conclusion in the Rowan Report, that "an appropriate reporting format with a degree of consistency across the funds" is desirable and encourages the Chairman of Management Board to initiate such a process.

RECOMMENDATION 5.3

As a matter of principle, public sector pension funds should invest only in market investments.

The Advisory Board understands that the term "market investments" is meant to include venture investments, private placements and similar assets, so long as there is some basis for assessing a competitive market price.

The Advisory Board does not agree that public sector pension funds should be totally precluded from investing in non-market government debt. There may be circumstances when such investments would be appropriate. For example, some Advisory Board members are not opposed to the concept of a notional fund such as that proposed for the federal public service fund, whereby the fund is held as non-market government debt, but is credited a rate of interest which reflects actual pension fund earnings of a group of private sector organizations. However, as a general principle, the Advisory Board is of the view that investments through the market are preferable.

There is a dissenting opinion that this recommendation should not be accepted as a matter of principle but it may be acceptable in individual cases.

The Advisory Board understands that this recommendation does not mean that the $1.3 billion of non-market government debt still held by OMERS should be placed in the market immediately. The Advisory Board is supportive of the current policy intention of placing these monies in the market as the debentures mature beginning in 1993.

RECOMMENDATION 5.5

> The Government should not direct public sector pension funds to make investments which are not in the financial interest of the funds and their beneficiaries.

The Advisory Board concurs with this recommendation. The Advisory Board interprets "investments which are not in the financial interests" as meaning investments which provide for a lower return for a given level of risk, or a higher level of risk for a given level of return. However, it is not aware of any proposals that the Government should give such direction. In any event, such non-economic investments would be in conflict with the Pension Benefits Act, 1987.

Pension fund governors should not be precluded from taking into account social or ethical objectives when making investment decisions, provided that the primary financial criteria are met. *(Also see Advisory Board comments on Recommendation 5.3.)*

RECOMMENDATION 5.6

> The Government should request the Federal Government to raise the foreign property limit contained in the Income Tax Act above 10 per cent.

The Advisory Board is of the view that it is not the appropriate forum to assess and make recommendations on this matter.

The Advisory Board believes that the Rowan Report recommendation was based on a view that broader opportunities for diversification in the international market would be to the benefit of pension fund beneficiaries. Even if this is correct, a policy decision on this issue also should take into account the potential impact on the economy. The Advisory Board notes that no information was provided in the Rowan Report on the economic impact of raising the foreign property limit above 10 per cent.

SECTION III ~ PLAN-SPECIFIC RECOMMENDATIONS

INTRODUCTION

Chapters 10, 11, 12 and 13 of the Rowan Report provided a detailed examination of recommendations for the following public sector pension plans: Ontario Municipal Employees Retirement System (OMERS), the Colleges of Applied Arts and Technology (CAAT) pension plan, Ontario Hydro pension plan (HYDRO), Hospitals of Ontario Pension Plan (HOOPP) and the Workers' Compensation Board pension plan (WCB).

The Rowan Report examined the formal pension deal in each of the plans, compared it to current practice and recommended changes considered necessary to the pension deal of each plan.

The Advisory Board feels that the parties to the pension deal should be the ones deciding on changes to it. Therefore, the Advisory Board chose to provide general advice rather than comment on the specifics of the recommendations for each plan.

The Advisory Board agrees that, generally speaking, there is no clear understanding about the nature of the deal and in some instances, there is a fundamental disagreement between parties on what the deal should be and how basic issues such as ownership/distribution of surplus should be handled.

The Rowan Report argued that discussions between the parties to clarify all aspects of the pension deal are useful. The Board supports this view and adds that if changes are required as part of the clarification of the pension deal, they should be decided by the parties to the deal through a consultative process.

The Advisory Board agrees with the Rowan Report that plan members do have a role to play in the decision-making process regarding benefit policies, plan administration and the investments of the pension plan.

The Advisory Board also notes that several issues are mentioned in the plan-specific chapters of the Rowan Report, in addition to the matters addressed in recommendations. However, in keeping with the Minister's letter of referral, the Advisory Board has restricted its comment on these chapters to the Rowan Report recommendations.

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (OMERS)

Overview of Plan/Fund

The Ontario Municipal Employees Retirement System (OMERS) has Ontario's second largest public sector pension fund. It is a contributory, defined benefit plan. As of December 31, 1987, OMERS had almost 147,000 plan members, over 36,000 beneficiaries and the market value of OMERS fund assets reached almost $8.0 billion. OMERS has been investing in the market since 1976.

Rowan Report Overview

The Rowan Report reviewed the OMERS pension deal and pension fund structure, and concluded that although the OMERS deal works smoothly on the surface and the investment performance of the fund has been very good, the current practice in the OMERS pension deal is not consistent with the formal deal. The Report also cautioned that the taxpayer's interest was not being taken into account adequately. The Rowan Report concluded that the principle that whoever bears the investment risk should be able to get the investment reward has not been applied properly and the taxpayer's interest has not been adequately taken into account.

Noticing the discrepancy between the OMERS formal deal and the current practice, the Rowan Report recommended that either the formal deal be changed to correspond to the current practice or the current practice be changed to correspond to the formal deal, with explicit sharing of risks and rewards between the taxpayer and the plan members.

Comments from Interested Parties

All interested parties to the OMERS pension plan disagreed with the Rowan Report recommendations to change the formal deal to comply with current practice or to change current practice to comply with the formal deal. OMERS is a well functioning plan that provides regular pension plan improvements and adequately takes the taxpayer's interest into account. The old adage "if it ain't broke, don't fix it" is most appropriate for this plan. *(Also see Appendix F.)*

Advisory Board Comments

RECOMMENDATIONS 10.1 and 10.2

> The Government initiate discussions designed to bring the formal OMERS pension deal into line with current practice but with an explicit sharing of risks and rewards between employer/contributors and plan members (Recommendation 10.1).
>
> As an alternative to Recommendation 10.1, current practice in the OMERS pension deal should be changed to bring it into line with the formal OMERS pension deal (Recommendation 10.2).

The Advisory Board acknowledges that the parties involved in the OMERS plan are satisfied with the current arrangement and considers OMERS to be a plan that works well.

The Advisory Board is supportive of the current OMERS arrangement and does not endorse either of Recommendations 10.1 or 10.2.

The Advisory Board recognizes that, because the plan is working well, now is a good opportunity for the parties to clarify how to handle potential future events, e.g. the treatment of surplus and deficits and the process for changing the deal.

The Advisory Board believes that a new approach is needed to resolve the disposition of a surplus and responsibility for a deficit. The Advisory Board recommends that the plan specifics be sorted out by the parties involved in light of general government principles and guidelines.

It would be helpful to the plan to receive some guidance on the process to clarify the treatment of surplus as called for by the Pension Benefits Act, 1987. *(Also see Advisory Board comments on Recommendation 3.1.)*

COLLEGES OF APPLIED ARTS AND TECHNOLOGY (CAAT) PENSION PLAN

Overview of Plan/Fund

The Colleges of Applied Arts and Technology (CAAT) pension plan has Ontario's seventh largest public sector pension fund. It is a contributory, defined benefit plan. By mid-1988, CAAT had 22 participating employers, 16,555 plan members and 1,963 beneficiaries. As of December 31, 1987, CAAT fund assets reached approximately $920 million.

The CAAT plan is not established by separate legislation but set out as a regulation under the Ontario Municipal Employees Retirement System Act and is managed by the OMERS Board under a management agreement.

Rowan Report Overview

The Rowan Report concluded that there was some confusion as to who was the CAAT plan sponsor and the employer for pension purposes. While the Board of Governors of each community college is the legal employer, the provincially appointed Council of Regents is the pension plan sponsor. OMERS acts as trustee and administrator of the CAAT plan under contract to the Council of Regents. OMERS is also responsible for investment policy and acts as investment manager for the CAAT plan.

The Rowan Report acknowledged that the relationship between CAAT and OMERS is strained. The Colleges are dissatisfied with the quality of plan administration provided by OMERS and believe that a private supplier, such as an insurance company, not OMERS, should provide plan administration.

The Rowan Report noted that the CAAT plan and fund are large enough to be independently managed if this is what the Colleges want.

The Rowan Report also acknowledged that Colleges have legitimate complaints about the quality of services provided by OMERS. The Report recommended that the parties to the CAAT plan clarify their roles and responsibilities with respect to the CAAT pension deal and that the intent of Section 16 of the OMERS Act with regard to plan administration and investment management functions be clarified by the Government.

Comments from Interested Parties

OPSEU was supportive of the Rowan Report Recommendations 10.3 through 10.6, with the exception of Recommendation 10.5. It expressed dissatisfaction with the arrangement between CAAT and OMERS, whereby OMERS currently provides administration and investment management for the CAAT plan. OPSEU stated that a separate pension plan with administration and investment decisions managed independently of OMERS would serve the present membership better. OPSEU also urged that the CAAT plan be negotiable. *(Also see Appendix F.)*

Advisory Board Comments

RECOMMENDATION 10.3

> The Ministry of Colleges and Universities, the Council of Regents and the Boards of Governors of the Colleges of Applied Arts and Technology (CAATS) should clarify their different roles and responsibilities with respect to the CAATS pension deal in order to confirm, among other things, who is the employer for pension purposes, who is the plan sponsor and who is responsible for unfunded liabilities.

The Advisory Board concurs with this recommendation and notes that the parties involved should discuss the situation and clarify their roles and responsibilities.

While the Advisory Board recognizes that reaching an agreement on who is the employer for pension purposes, who is the plan sponsor and who is responsible for unfunded liabilities may be very difficult, it notes that the recently released Report of the Colleges Collective Bargaining Commission (Gandz Report) and its recommendations may be useful as a starting point in sorting out roles and responsibilities of parties to the pension deal.

RECOMMENDATION 10.4

> No change be made in the contractual relationship between OMERS and the CAATS respecting either plan administration or investment management until:
>
> a) Recommendation 10.3 has been completed, and
>
> b) The cost implications of the proposed changes have been assessed.

The Advisory Board concurs with this recommendation.

RECOMMENDATIONS 10.5 and 10.6

> The Government should clarify whether Section 16 of the OMERS Act (under which OMERS carries out plan administration and investment management functions for CAATS and RYERSON) is permissive or mandatory. If mandatory, then the Government should set out to whom the OMERS Board is accountable in this respect and how its performance should be measured (Recommendation 10.5).
>
> If Section 16 of the OMERS Act is permissive, the OMERS Board should determine whether OMERS wishes to supply plan administration and investment management services to other public sector pension funds. If it wishes to supply such services, the OMERS Board must be prepared to give direction and support to OMERS staff so that they can provide high quality and competitive service (Recommedation 10.6).

The Advisory Board agrees that clarification of the intent of Section 16 of the OMERS Act is desirable.

While the Advisory Board agrees that the Colleges should not be obliged to rely on OMERS for administration and investment management, it is aware that this action would have some larger implications. The CAAT plan is subject to government approval because the plan text is set out under Section 16 of the OMERS Act. If OMERS no longer manages the CAAT plan and fund there would be no need for a regulation under the OMERS Act. As a result, there would be no mechanism by which government approval would be required for the CAAT plan. The CAAT plan would operate only under the Pension Benefits Act, 1987, in a manner similar to the HOOPP plan.

The Advisory Board agrees with the Rowan Report that the CAAT fund is large enough to be independently managed and operated, if this is what the Colleges want. In the Advisory Board's view, an early resolution of the matter would be helpful to OMERS for administrative and investment planning purposes.

ONTARIO HYDRO PENSION PLAN (HYDRO)

Overview of Plan/Fund

The Ontario Hydro pension plan (HYDRO) has Ontario's fifth largest public sector pension fund. It is a contributory, defined benefit plan. As of December 31, 1986, the HYDRO fund had assets of about $3.3 billion, 23,500 plan members and almost 7,700 beneficiaries.

Rowan Report Overview

Although the Rowan Report noted that the current practice in the HYDRO plan is in line with the formal deal, it acknowledged that some changes are desirable. There is some ambiguity over fiduciary responsibilities of the Ontario Hydro Board of Directors. The Hydro Board is both the employer and the pension plan governor. The Rowan Report concluded that wherever possible these two functions should be separated and improvements made to the decision-making process of the HYDRO fund.

Comments from Interested Parties

Both employee and employer parties to the HYDRO plan were generally supportive of the Rowan Report recommendations. The Rowan Report recommendation that employees have minority representation on a pension board or investment committee was opposed by employee groups, who want at least equal representation. While Ontario Hydro supported the Pension Benefits Act advisory committee, which provides for plan members to advise in respect to the pension plan but only monitor investment matters, Hydro disagreed that employees have the further right to be involved in investment decision making. *(Also see Appendix F.)*

Advisory Board Comments

RECOMMENDATION 11.1

Ontario Hydro should review its pension fund structure:

- If a separate board is established to be responsible for the investment management of the Ontario Hydro pension fund, a minority of board members should be plan members or their representatives.
- If a separate board is not established, a minority of committee members on the planned pension investment policy committee should be plan members or their representatives.

In the view of the Advisory Board, it would be preferable to have a separate pension fund board of governors, with plan member representation. However, the nature and extent of employee representation in investment decision making should be worked out between the parties to the HYDRO plan.

The Advisory Board proposes that Ontario Hydro reconsider its position against employee representation on its Investment Policy Committee. The Advisory Board does not feel that the establishment of the Pension Benefits Act advisory committee will meet the need for employee involvement in investment decision making.

RECOMMENDATION 11.2

The Ontario Hydro pension fund should be governed by the Pension Benefits Act. The specific provisions in the Power Corporation Act covering the HYDRO Fund, apart from any necessary enabling provisions, should be removed.

The Advisory Board concurs with this recommendation.

The Advisory Board notes that all the parties consulted with respect to the HYDRO plan (i.e. CUPE, the Society and Ontario Hydro), agree with the recommendation that the specific provisions in the Power Corporation Act covering the HYDRO plan and fund be removed and that they should be governed only by the Pension Benefits Act, 1987. This would make the HYDRO plan similar to HOOPP, for which terms are set out in the plan text and not in separate governing legislation.

RECOMMENDATION 11.3

> The requirement for approval by the Lieutenant Governor in Council of changes in pension benefits for Ontario Hydro employees should be removed.

The Advisory Board concurs with this recommendation.

The Advisory Board supports the general principle that changes to the pension benefits should be agreed upon by the parties involved.

The Rowan Report concluded that the Government should monitor the total compensation trends in the public sector so that it is in a position to hold agencies, boards and commissions accountable. Where pension trends appear to be getting out of line, the Government should make its views known to the agency before the next round of negotiations. The Advisory Board agrees with this conclusion, particularly with respect to Ontario Hydro which has collective bargaining for pensions.

The Advisory Board could be helpful in this respect by advancing the general principles and guidelines for the public sector pension plan amendment and approval process. If these are acceptable to the Government, they should be communicated to the plans before the parties involved sit down to negotiate.

HOSPITALS OF ONTARIO PENSION PLAN (HOOPP)

Overview of Plan/Fund

The Hospitals of Ontario Pension Plan (HOOPP) has Ontario's fourth largest public sector pension fund. It is a contributory, defined benefit plan. As of December 31, 1986, HOOPP had 301 participating employers (hospitals and other health-related institutions), over 70,000 plan members, 19,000 beneficiaries and $3.7 billion in assets.

The terms of HOOPP are set out in its plan text, unlike other public sector plans for which there is governing legislation or regulations. However, the plan is subject to the Pension Benefits Act, 1987.

Rowan Report Overview

The Rowan Report noted that the current practice in the HOOPP plan is closely aligned with the formal pension deal. The Report focused its review on the discrepancy in treatment of surplus between the ongoing surplus and surplus on plan termination.

While the plan document is silent on who owns ongoing surplus, in the past it has been allocated in part to improve benefits and is therefore shared with plan members.

The Rowan Report concluded that the Ontario Hospital Association (OHA) should be entitled to reduce employer contributions or to take contribution holidays if surplus exists and when it is appropriate to do so. If this is not allowed, tax dollars from hospital grants would be placed unnecessarily into the HOOPP fund and there would be no saving to the taxpayer.

The HOOPP plan document provides that any surplus remaining on plan termination after all pensions promised have been paid, belongs to the plan members. However, the Rowan Report concluded this was not fair to the taxpayer. The Rowan Report stated that while employer contributions in defined benefit pension deals are based on actuarial assumptions about the future, these assumptions are very likely to be wrong. In a wind-up situation, where the conservative long-term assumptions used by the actuary encounter the reality of time, there could be a considerable windfall to those who are then plan members. This would be detrimental to the taxpayer who provided at least 50 per cent of funding.

The Rowan Report noted that while it is unlikely that the entire HOOPP plan would be terminated, some participating employers could close down so this is not a hypothetical situation.

The Rowan Report advocated that when the HOOPP fund has a surplus, employer contributions should be reduced and, if appropriate, employers should take a contribution holiday. The Report recommended that when the employers' contributions are reduced, the Ministry of Health and the OHA should decide whether hospitals or taxpayers should get the benefit of such a reduction.

Comments from Interested Parties

Employee groups do not support the employer taking contribution holidays and therefore do not support the Province and the OHA determining how savings from an employer contribution holiday should be used.

Employee groups also do not agree that the surplus on plan termination should revert to the employer since the plan text now gives such ownership to employees. The OHA agreed with the Rowan Report that the employer should receive the surpluses on termination.

Employer and employee groups agreed that there should be plan member involvement on the investment committee. The employee groups requested more than minority representation. The OHA stated that it is actively considering employee involvement. *(Also see Appendix F.)*

Advisory Board Comments

RECOMMENDATION 12.1

> The Ministry of Health and the Ontario Hospital Association should determine whether any savings arising from reduced employer contributions to the HOOPP pension fund should remain in the health care system for non-pension uses or should benefit the taxpayer through a reduction in grants to hospitals.

The Advisory Board does not believe it is part of its mandate to offer assistance in determining how savings arising from any source, including reduced employer contributions to the HOOPP fund, should be allocated.

Some members of the Advisory Board disagree in principle with contribution holidays for employers.

RECOMMENDATION 12.2

> The Ontario Hospital Association should amend the HOOPP plan to provide that any surplus on plan termination is refunded to employers.

The Advisory Board does not support this recommendation. The HOOPP plan text clearly states that any surplus remaining on plan termination goes to employees. If employees have a legal right to a surplus on plan termination, such a right should not be taken away without their consent.

RECOMMENDATION 12.3

> The Ontario Hospital Association appoint at least one non-management plan member or representative to the HOOPP Investment Committee.

The Advisory Board notes that while the OHA Pension Committee has employee representation, the Board of Directors of the OHA does not.

As a general principle, it would be preferable to have a separate pension fund board of governors which would be structurally distinct from employers and employees, but with representation from each group. However, the nature and extent of employee representation in investment decision making should be worked out between the parties to the HOOPP plan and fund. *(Also see Advisory Board comments on Recommendations 4.4 and 11.1).*

WORKERS' COMPENSATION BOARD PENSION PLAN (WCB)

Overview of Plan/Fund

The Workers' Compensation Board pension plan (WCB) has Ontario's sixteenth largest pension fund. It is a contributory, defined benefit plan. As of December 31, 1986, the WCB Fund had assets of $254 million, nine participating employers, over 4,000 plan members and almost 800 beneficiaries.

Rowan Overview

The Rowan Report concluded that current practice in the WCB pension plan is reasonably well aligned with the pension deal.

Currently, the WCB is both the employer and the body responsible for the WCB pension fund. This could give rise to a perceived conflict of interest for the WCB in carrying out these two roles. The Rowan Report recommended that whenever possible, these two roles should be clearly separated.

Also, there is no separation of the investment management responsibilities of the WCB Board between the WCB accident fund and the WCB pension fund. The Rowan Report recommended that a clear distinction should be made between these two funds and the decision-making process with respect to changes to WCB pension benefits streamlined.

Comments from Interested Parties

The Rowan Report recommendations on the WCB were generally supported by both employee and employer groups. CUPE argued that the WCB plan be negotiable and that the plan text should be removed from legislation. The WCB stated that it is willing to establish a separate pension fund board with minority employee representation. *(Also see Appendix F.)*

Advisory Board Comments

RECOMMENDATION 13.1

The WCB should review its pension fund structure:

- If a separate board is established to be responsible for the investment management of the WCB pension fund, a minority of board members should be plan members or their representatives.
- If a separate board is not established, a minority of committee members on the Investment Advisory committee should be plan members or their representatives for those matters involving the WCB pension fund.

As a general principle, it would be preferable to have a separate pension fund board of governors which would be structurally distinct from employers and employees, but with representation from each group. However, the nature and extent of employee representation in investment decision making should be worked out between the parties involved.

The Advisory Board notes that the WCB is prepared to support the establishment of a separate pension fund board.

RECOMMENDATION 13.2

The WCB Board, the Investment Committee and the Investment Advisory Committee should make a clear separation in their decisions between the WCB accident fund and the WCB pension fund.

The Advisory Board believes that there should be a clear separation in the investment policy and accounts of the WCB, between the WCB accident fund and the WCB pension fund. However, separate investment managers may not be necessary.

RECOMMENDATION 13.3

> The decision-making process within the Ontario Government for considering changes to the WCB pension benefit levels should be streamlined.

The Advisory Board supports this recommendation. While it would like to express concern over the length of the consultative and decision-making process in some public sector plans, including the WCB plan, it does not wish to consider any plan in isolation. The Government should pursue the suggestion that these processes be streamlined.

LIST OF APPENDICES

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APPENDIX A

Ontario

The Management Board of Cabinet

Conseil de gestion du gouvernement de l'Ontario

Frost Building South
Queen's Park
Toronto, Ontario
M7A 1Z6

Edifice Frost sud
Queen's Park
Toronto (Ontario)
M7A 1Z6

February 11, 1988

Ms. Ethel McLellan
Chairman
Public Sector Pensions Advisory
Board
3rd Floor
101 Bloor Street West
Toronto, Ontario
M5S 1P7

Dear Ms. McLellan:

Today, the Government will be releasing two important reports: the Rowan Task Force Report on the Investment of Public Sector Pension Funds, and the Coward Report on the Financing of Benefits under the Superannuation Adjustment Benefits Act and Associated Superannuation Plans.

The Government will be establishing a special consultation process concerning the Superannuation Adjustment Benefits issues, directed by Dr. David Slater. Because your staff is familiar with these pension plans and the time frame is short, it would be appreciated if their assistance were made available to the consultation process.

I would also like the Public Sector Pensions Advisory Board to provide me with its views and recommendations on several matters contained in the Rowan Report (see attached) by July 31, 1988.

First, at a general level, Rowan sets out findings and recommendations regarding the relationship between public sector employers and employees on pension matters. It would be helpful to have the Board's comments on this framework. Second, I would like the Board's guidance on Rowan's recommendations concerning the Ontario Municipal Employees Retirement System, the Hydro Pension Plan, the Hospitals of Ontario Pension Plan, and the Worker's Compensation Board Pension Plan.

Finally, as you are aware, a pre-publication report from the Task Force on Inflation Protection for Employment Pension Plans was released on January 21, 1988. Please find enclosed a copy for your information.

Thank you for your consideration of these matters.

Yours very truly,

Murray J. Elston, M.P.P.
Bruce
Chairman

ADVISORY BOARD MANDATE AND MEMBERSHIP

Mandate

On referrals from the Chairman of Management Board, the Public Sector Pensions Advisory Board provides analysis and advice on issues relating to employment pension plans in the Ontario public sector. The Advisory Board was established in March of 1986.

Members of the Advisory Board

Chairman: Ethel McLellan is a retired Deputy Minister who served as Chairman of Ontario's Civil Service Commission prior to her current appointment. She is recognized for her work in the civil service relating to public sector pensions, human resource management and the promotion of employment equity and opportunity for women.

Robert Baldwin is the Senior Researcher, Research and Legislation Department, Canadian Labour Congress. His primary responsibility is in the social security and pension fields.

John Capo is a partner in the law firm of Capo, Sgro, DiLena, Hemsworth, Mendicino. He is President and Cofounder of the Canadian Italian Advocates Association.

Laurence Coward is an actuary and a director emeritus of William M. Mercer Ltd. He was the first Chairman of the Pension Commission of Ontario (1963 - 1965), remaining a member of the Commission until 1977.

Mary Louise Dickson is a lawyer with McCarthy & McCarthy. Her area of expertise is the field of pensions. She is Chairperson of the Pensions and Benefits Section, Canadian Bar Association (Ontario).

Peter Hirst is the President and Cofounder of Actrex Partners Limited, an actuarial firm in Toronto. He is the President Elect of the Canadian Institute of Aqtuaries and Immediate Past President of the Canadian Pension Conference.

Brigid O'Reilly is a communications consultant with The Wyatt Company Limited. She received the 1987 YWCA Women of Distinction Award in the Business/Labour category and has been active in pension and other issues for women.

James Pesando is a professor of economics and Director of the Institute for Policy Analysis, University of Toronto. He has extensive academic and consulting experience in the pension field.

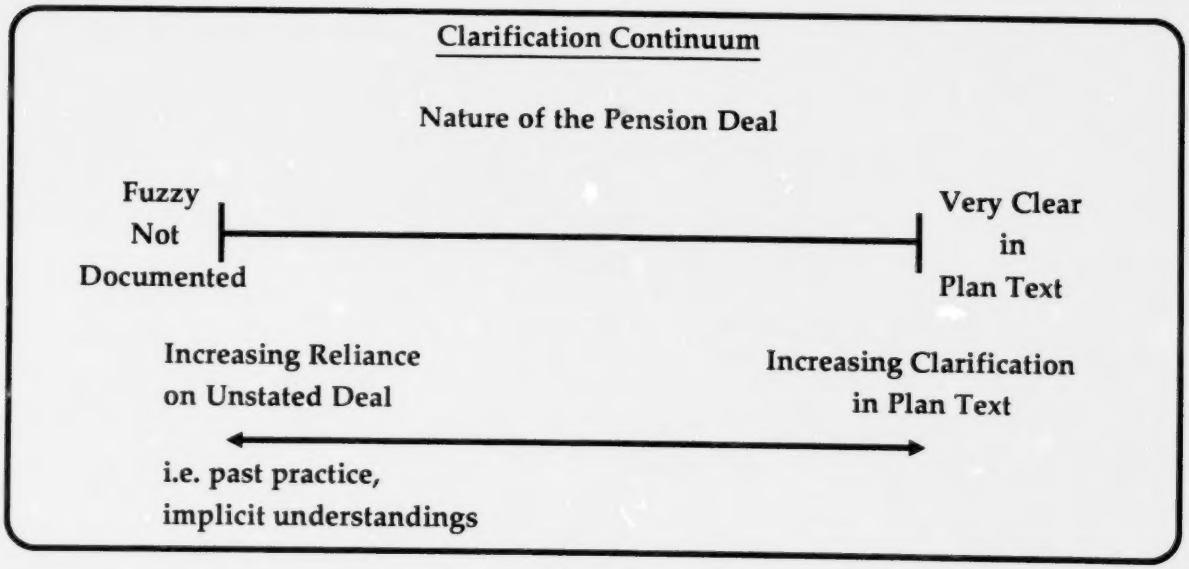
Marie Wilson is the Chairman of the Board, A.E. Wilson and Company Limited, an insurance brokerage firm. She is a past president of the Toronto Insurance Conference.

Tony Wohlfarth is National Representative, Research Department, Canadian Auto Workers. His primary responsibility is to provide technical support in collective bargaining for pensions and benefits.

APPENDIX C

CLARIFICATION OF THE PENSION DEAL

Clarification Continuum - A Tool for the Examination/Clarification of the Pension Deal



Clarification of the Pension Deal

In examining the pension deal, employers and plan members should consider:

Ideally, what should be explicit in the plan text?

Realistically (from the employer and the plan members' perspectives), what can be explicit in the plan text?

If something cannot be made explicit/clear in the plan text, how else can it be clarified by the parties as a part of the pension deal?

Elements of the Deal to be Clarified

Examples of various elements of the pension deal which should be examined for clarification include:

Benefit design;

Financing - employer contributions (ongoing and special payments), employee contributions;

Investments - policy, structure;

Treatment of a surplus/responsibility for a deficit;

Total compensation and pensions;

Process for amending benefits and other aspects of the deal;

Plan member involvement in administration, benefits , investments;

Indexation - level for past and future service, funding.

Degrees of Clarification

It is not realistic to think that all elements of the pension deal will be made explicit in the plan text/legislation due to the various strategic interests of the parties.

Through open discussion by the parties, however, clarification could go at least as far as a common understanding of what the deal is and what it is not.

Clarification can also be accomplished in documents/forums other than the plan text e.g. board of governors' minutes; memorandum of understandings between of the parties.

The following are examples of elements of the deal which could be found at certain positions along the clarification continuum. These could vary by plan, but the objective is to have as much clarification as possible (i.e. on the right hand side).

Understanding Based on Past Practice, etc.	At least Common Understanding **	Explicit in Plan Text
• Ad hoc inflation protection for past service, future service	• Treatment of surplus	• Benefit design
(based on employer's ability to pay)	– ongoing - no removal of surplus	• Employee contributions
	– employer contribution holidays	– matching or not
	• Cost sharing of future benefit improvements	• Responsibility for unfunded liabilities
	(surplus, contributions, investment returns)	• Employee involvement in administration, benefits, investments
	• Impact of pensions on total compensation	• Investment policy, structure
		• Process for making plan amendments
		• Guarantee, if any

** *These could be made clear in statements other than plan text.*

APPENDIX D

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 3, The Pension Deal)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
THE PENSION DEAL	• Statement of the pension promise by an employer and the means by which that promise will be fulfilled. • The deal should be clear and consistent. • The parties are: – employers – plan members/their representatives – the taxpayer. • Both plan members and employers have an interest in the security of pension fund investments – the extent of the interest of each participant depends on the kind of pension deal.	• **Deal is an important underlying concept.** • **Deal concept is useful in deciding on relationships between employers and employees.**	• Board agrees with this conclusion. • The concept of the "deal" is useful as a framework for encouraging parties to examine what the plan provides (based on the formal plan text and implicit expectations arising from past practice). • However, much of the plan-specific analysis in the Rowan Report applies too rigidly the Report's pension deal classification system.
ROLES OF GOVERNMENT	• Government should recognize and separate, where possible, its seven major roles in connection with public sector plans: – Legislator/regulator – Plan sponsor – Employer – Contributor to the pension fund – Guarantor of the pension promise – Source of funding for another employer – Guarantor of another employer's debt.	• **Government should act like the employer when it is the employer and not confuse this with its legislative role.**	• In practice, it may be very difficult for the Government to keep its roles separate - particularly its employer role. • Board advises Government that when acting as the employer, it should follow the approach of the private sector and not try to resolve its employer issues through political/legislative action.
TAXPAYER'S STAKE	• Only 2 principals in the investment of public sector pension funds: – the plan member – the taxpayer. • Public sector employers are agents of the taxpayer. • Public sector employees be treated fairly. • Full cost of public sector pension benefits be known and identified as part of total compensation.	• **Taxpayer's interest be adequately taken into account.** • **Cost to the taxpayer be as low as possible.** • **Taxpayer should not be asked to assume a disproportionate share of the risk.**	• Board in general agreement with conclusions.. • Board notes that the current government review and approval processes for plan amendments provide the opportunity to consider the taxpayer's interest at various levels, but these processes may not be serving that purpose and should be reviewed. • It should be a government priority to develop principles and guidelines on public sector pension issues and to communicate these to consulting parties prior to discussions of plan amendments.

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 3, The Pension Deal)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
CHANGING THE PENSION DEAL THROUGH NEGOTIATIONS	• Demand (desire) for greater choice of benefit packages offered to employees. • Given a trend to greater choice in benefit packages offered to employees, it would be up to employees to elect which deal best suits their needs. • A measure of stability is essential. Pension deal is designed for the long term.	• **Public sector employers should be amenable to discussing changes to the current (type of)* pension deal with their employees if their employees indicate a desire for change (R. 3.2).** • **The process for changing the pension deal should be clear and not cumbersome.**	• Board agrees that it should be up to plan members/employers together to select a pension deal which best suits their needs. • Board agrees with this conclusion.
• Negotiating pensions and total compensation	• Total compensation approach to pensions. Taxpayer has much to gain from having salaries and pension benefits considered together. • Arbitration on pension issues would not be in the taxpayer's interest.	• **To the extent possible, benefit and employee contribution levels should be negotiated or discussed between the employer and employees as part of total compensation (R. 3.3).** • Within a particular pension deal, elements such as benefit and funding levels should be considered as part of total compensation. • No recommendation on collective bargaining for pensions, but observations are noted.	• Pensions should be considered in context of total compensation but recognizes this not always achievable where salaries and pension benefits are decided in separate forums. • However, every effort should be made to recognize total compensation for the purposes of cost management and the taxpayer's interest. • Board notes that the area of negotiations/ collective bargaining for pensions is an important area that warrants a separate examination.
SURPLUS OWNERSHIP			
• Concept of surplus/deficit	• Surplus has two components: – investment risk surplus/deficit – actuarial surplus/deficit. • Existence of surplus should be considered with a full understanding of how surplus arose.		
• Ownership of surplus/deficit	• Whoever bears the investment risk should receive the investment risk surplus. • Employers and employees are entitled to share that part of actuarial surplus that results from their over-contributions if contributions are set on the basis of conservative actuarial assumptions. • Pensioners should share in that portion of actuarial surplus that is inflation induced.	• **Public sector employers should review their pension deal to determine whether the component of the deal relating to ownership of a surplus is clear. Where this component is not clear, (or clear and not agreed to)* public sector employers should discuss changes to the deal with employees to make this component clear (R. 3.1).** • No single or simple means of deciding who owns the surplus. Pension deal should spell out clearly who owns what and under what circumstances. • It is prudent to leave at least part of the surplus as a cushion.	• Board supports the parties making all aspects of the deal explicit to reduce acrimony and misunderstanding. • Board recognizes that the issue of surplus ownership may be a difficult one on which to reach, and then to implement, an agreement. • A suggested process for considering the disposition and ownership of surplus/deficit may be helpful.

* *Advisory Board addition for completeness*

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 4, Pension Fund Structure)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
WHO DETERMINES PENSION FUND STRUCTURE	• Because the pension fund underlies the security of pensions promised, plan members have a stake in pension fund investment decisions.	• **Public sector employers/plan sponsors should involve plan members in plan administration and investment management and, in appropriate circumstances, should appoint plan members as pension fund governors (R. 4.1).**	• Board supports principle of plan member involvement in the decision-making process – including pension fund investment.
• Involvement of plan members?	• Involvement in investment decision making would improve plan member understanding and morale. • In defined benefit related deals, pension plan members do not have the right to be involved in organizational structure decision making but should be involved in plan management. • For combined benefit/asset related deals, decision making should be shared.	• **Where the organizational structure of the pension fund in a defined benefit related pension deal is separate from the employer/plan sponsor (e.g. OMERS), a minority of the pension fund governors should be plan members (R. 4.2).** • **Where the organizational structure of the pension fund in a defined benefit related pension deal is not separate from the employer/plan sponsor (e.g. HYDRO, HOOPP and WCB), the employer/plan sponsor or the pension fund governors should appoint a minority of plan members to its investment committee (R. 4.3).**	• The mechanism for, and extent of, plan member representation should be worked out by the parties involved.
PENSION FUND STRUCTURE DECISION	• There are many ways to structure a pension fund. • No one structure is right for all circumstances. • Pension fund governors should be of the highest quality. • Governors should understand the pension deal and fiduciary responsibilities.	• **To the extent practical, public sector pension funds should be organized so that their activities are clearly separated from the employer and the employees (R. 4.4).**	• Board concurs with the recommendation with the understanding that: "To the extent practical, public sector pension funds should be structured so that the following are separated from the employer and the employees: – custody of the fund; – pension accounts." • As a general principle, it would be preferable to have a pension fund board of governors structurally distinct from employers and employees but with representation from both groups. • Implementation of the recommendation should be left up to the parties involved.

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 4, Pension Fund Structure)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
CENTRALIZATION OF FUNDS	• Bigger is not necessarily better.	• **The Government should not further centralize public sector pension funds. The existing large funds should continue to operate as separate and independent funds (R. 4.5).** • The disadvantages of one large centralized fund outweigh the advantages. • Large centralized funds would have an adverse impact on the capital market because they may be so large that they may influence the behaviour of the market.	• The Board concurs with this recommendation. • The public sector pension system is already fairly centralized.
		• **The Government should encourage smaller public sector pension funds to pool their assets for investment purposes with a larger public sector pension fund so that they can benefit from lower investment management costs and potentially more diversified investment opportunities (R. 4.6).**	• Board does not advise the Government to place a high priority on this recommendation.
INTERNAL VS. EXTERNAL INVESTMENT MANAGEMENT	• Appoint the very best pension fund governors and put in place a process to monitor their performance. • Pension fund governors in best position to decide appropriate type of managers.	• No clear evidence of better performance for either. • **The decision to select and appoint internal or external investment managers for public sector pension funds should rest with the pension fund governors (R. 4.7).**	• Board concurs with this recommendation.
		• **Public sector pension funds should review their compensation policies for their internal investment managers with a view to ensuring that they are in line with the compensation policies for internal investment managers of private sector pension funds (R. 4.8).**	• Board does not believe this recommendation should be pursued at this point in time. • There is no clear evidence supporting a problem in this area.

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 5, Investment Policy)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
PRUDENCE AND ACCOUNTABILITY	• Pension fund governors are accountable to employer/plan sponsor (taxpayer agent) and to plan members. • Pension fund governors have a fiduciary responsibility to make investment decisions which are in the best interests of the beneficiaries of the fund and not serve other objectives no matter how noble.	• **Public sector pension fund sponsors should ensure that a formal process of holding pension fund governors accountable is in place (R. 5.1.)** • **As an instrument of accountability, public sector pension fund governors should provide full information about the fund annually to plan members, and should make this information available publicly for the benefit of the taxpayer (R. 5.2).** • Examples of the type of information which might be provided: – statement of investment policy – investment performance in relation to investment policy – assets held by the fund – the composition and roles of decision making and advisory bodies, and external investment managers. • **The Task Force encourages Ontario public sector pension funds to develop an appropriate reporting format with a degree of consistency across funds.**	• Board feels there is no one process appropriate in all circumstances – process should be developed for each plan. • Board concurs with this recommendation. • Board agrees with this conclusion and encourages the Chairman of Management Board to initiate such a process.
MARKET INVESTMENTS VS. NON-MARKET GOVERNMENT DEBT • Risk • Benefit to taxpayer • Benefit security • Impact on capital markets	• The Government as employer/plan sponsor should abide by the same rules as private sector employers. • The term and the interest rate should be directly established by the market place.	• **As a matter of principle, public sector pension funds should invest only in market investments (R. 5.3).** • All categories of risk would be either neutral or lower as a result of a shift to market investments with the exception of independent return risk and default risk. • Taxpayer could benefit from a higher investment return from a diversified portfolio. • Security of benefits would not be adversely affected and could be enhanced. • Market investment, if implemented gradually, would not have an adverse effect on capital markets. • Minimal impact on the Province's finances. • No major disadvantages or obstacles to market investments. **Note:** *Recommendation 5.4, re: TSF, PSSF and SAF, was not referred to the Advisory Board.*	• The Advisory Board is of the view that investments through the market are preferable, but non-market investments should not be precluded.

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 5, Investment Policy)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
INVESTMENT POLICY/ CONVENTIONAL PORTFOLIO MANAGEMENT VS. STRATEGIC INVESTING • Should public sector funds be used for economic enhancement? — Should investments which are not in the financial interest of the fund be made if these investments are the goals of economic enhancement? • Tradional vs. non-traditonal investments • Socal investing	• Diversify and spread the risk. • Economic enhancement is best achieved through the market place. • The assets in a public sector fund are not tax money and are not to be used for government expenditure purposes.	• **The Government should not direct public sector pension funds to make investments which are not in the financial interest of the funds and their beneficiaries (R. 5.5).** • There is no overriding reason why pension funds should not invest at least part of their portfolios in strategic investments, in addition to conventional portfolio management. • Both traditonal and non-traditonal investments are acceptable if they adhere to the principles of prudency. • Public sector pension plans may seek to achieve social or other objectives as long as the financial rate of return goal remains paramount and there is no concessionary investment of public sector funds. • If the Government wishes to constrain or target pension fund investment, even though there may be no subsidy involved, it should make its rules applicable to all pension funds, private and public.	• Board concurs with this recommendation.
GLOBAL INVESTING	• Diversification and opportunity to earn the best rate of return.	• **The Government should request the Federal Government to raise the foreign property limit contained in the Income Tax Act above 10 per cent (R. 5.6).**	• Board is not the appropriate forum for review of this recommendation. • If 10 per cent rule is reconsidered, assessment should address the financial implications for funds and broader implications for the economy.

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 10, OMERS)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
CHANGING OMERS PENSION DEAL	• The deal should be clear and consistent. • Party that takes the risk should be able to get a reward. • Taxpayer's interest be adequately taken into account.	• **The Government initiate discussions designed to bring the formal OMERS pension deal into line with current practice but with an explicit sharing of risks and rewards between employer/contributors and plan members (R. 10.1).** This would mean: – Employers' contributions continue to match employees' contributions. – Deficit financed jointly by extra payments. – Inflation indexing and benefit improvements financed out of surplus assets of matching contributions. – Equal representation of employers and plan members on OMERS Board. – No government guarantee of the pension promise. – Government remains plan sponsor, appoints Board members and makes legislative changes. • **As an alternative to Recommendation 10.1, current practice in the OMERS pension deal should be changed to bring it into line with the formal OMERS pension deal (R. 10.2).** This would mean: – Employers to have majority on OMERS Board. – Employers' contributions should be variable allowing employers (taxpayers) to benefit from any surplus. – More direct link between pension benefits and total compensation.	• Board notes parties involved in OMERS feel it works well. • Positive situation provides a good opportunity to clarify the process for changes to the "deal" to address potential future events (e.g. treatment of surplus/deficit).

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 10, CAAT)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
CLARIFY CAATS ROLES AND RESPONSIBILITIES	• Government should act like the employer when it is the employer and not confuse this role with its legislative role. • Government should recognize and separate, where possible, its seven major roles in connection with public sector plans: – Legislator/regulator – Plan sponsor – Employer – Contributor to the pension fund – Guarantor of the pension promise – Source of funding for another employer – Guarantor of another employer's debt.	• **The Ministry of Colleges and Universities, the Council of Regents and the Boards of Governors of the Colleges of Applied Arts and Technology (CAATS) should clarify their different roles and responsibilities with respect to the CAATS pension deal in order to confirm, among other things, who is the employer for pension purposes, who is the plan sponsor and who is responsible for unfunded liabilities (R. 10.3).** • **No change be made in the contractual relationship between OMERS and the CAATS respecting either plan administration or investment management until:** **a) Recommendation 10.3 has been completed, and** **b) The cost implications of the proposed changes have been assessed (R. 10.4).**	• Board concurs with this recommendation. • Board concurs with this recommendation.
OMERS ROLE IN CAAT PLAN/FUND MANAGEMENT		• **The Government should clarify whether Section 16 of the OMERS Act (under which OMERS carries out plan administration and investment management functions for CAATS and Ryerson) is permissive or mandatory. If mandatory, then the Government should set out to whom the OMERS Board is accountable in this respect and how its performance should be measured (R. 10.5).** • **If Section 16 of the OMERS Act is permissive, the OMERS Board should determine whether OMERS wishes to supply plan administration and investment management services to other public sector pension funds. If it wishes to supply such services, the OMERS Board must be prepared to give direction and support to OMERS staff so that they can provide high quality and competitive service (R. 10.6).**	• Board feels the Colleges should not be obliged to rely on OMERS and agrees that the intent of S. 16 of the OMERS Act should be clarified.

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 11, HYDRO)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
ONTARIO HYDRO PENSION FUND STRUCTURE	• **To the extent practical, public sector pension funds should be organized so that their activities are clearly separated from the employer and the employees (R. 4.4).** • Because the pension fund underlies the security of pensions promised, plan members have a stake in pension fund investment decisions.	**Ontario Hydro should review its pension fund structure:** • **If a separate board is established to be responsible for the investment management of the Ontario Hydro pension fund, a minority of board members should be plan members or their representatives.** • **If a separate board is not established, a minority of committee members on the planned pension investment policy committee should be plan members or their representatives (R. 11.1).**	• Board supports plan member representation on the investment policy committee. The nature and extent of the representation should be worked out by the parties involved.
ONTARIO HYDRO LEGISLATIVE CHANGES		• **The Ontario Hydro pension fund should be governed by the Pension Benefits Act. The specific provisions in the Power Corporation Act covering the Hydro Fund, apart from any necessary enabling provisions, should be removed (R. 11.2).** • **The requirement for approval by the Lieutenant Governor in Council of changes in pension benefits for Ontario Hydro employees should be removed (R. 11.3).** • Government should have the responsibility for monitoring compensation trends in the public sector, so that it is in a position to hold boards of directors accountable. • Where pension trends appear to be getting out of line, Government should make its views known to the agency before the next negotiation.	• Board concurs with this recommendation. • Board concurs with this recommendation.

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 12, HOOPP)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
HOOPP SURPLUS OWNERSHIP/ TAXPAYER'S INTEREST	• Whoever bears the investment risk should receive the investment risk surplus. • Public sector employers are agents of the taxpayer. • If appropriate, employers should be allowed to take a contribution holiday, thereby benefitting the taxpayer.	• Rowan believes that the OHA should be entitled to reduce employer contributions or to take contribution holidays if a surplus exists and when it is appropriate to do so. • **The Ministry of Health and the Ontario Hospital Association should determine whether any savings arising from reduced employer contributions to the HOOPP pension fund should remain in the health care system for non-pension uses or should benefit the taxpayer through a reduction in grants to hospitals (R. 12.1).**	• Board does not believe it is part of its mandate to offer assistance in determining how savings arising from reduced employer contributions to the pension plan or any other sources should be allocated.
HOOPP SURPLUS OWNERSHIP	• Whoever bears the investment risk should receive the investment risk surplus. • Employers and employees are entitled to share that part of actuarial surplus that results from their over-contributions if contributions are set on the basis of conservative actuarial assumptions.	• **The Ontario Hospital Association should amend the HOOPP plan to provide that any surplus on plan termination is refunded to employers (R. 12.2).** • This amendment would not reduce the benefits which plan members have been promised by the HOOPP plan.	• Board does not support this recommendation. • If employees have a legal right to a surplus on plan termination, such a right should not be taken away without their consent.
HOOPP PENSION FUND STRUCTURE/PLAN MEMBER INVOLVEMENT	• **Where the organizational structure of a pension fund in a defined benefit related pension deal is not separate from the employer/plan sponsor (e.g. HYDRO, HOOPP and WCB), the employer/plan sponsor or the pension fund governors should appoint a minority of plan members to its investment committee (R. 4.3).** • Because the pension fund underlies the security of pensions promised, plan members have a stake in pension fund investment decisions. • Involvement in investment decision making would improve plan member understanding and morale.	• **The Ontario Hospital Association appoint at least one non-management plan member or representative to the HOOPP Investment Committee (R. 12.3).**	• Board supports plan member representation on the investment committee. The nature and extent of the representation should be worked out by the parties involved.

SUMMARY OF ROWAN REPORT RECOMMENDATIONS (Chapter 13, WCB)

KEY ISSUES	UNDERLYING PRINCIPLES/CONCEPTS	ROWAN RECOMMENDATIONS/ CONCLUSIONS	BOARD COMMENTS/ RECOMMENDATIONS
WCB PENSION FUND STRUCTURE/PLAN MEMBER INVOLVEMENT	• **Where the organizational structure of the pension fund in a defined benefit related pension deal is not separate from the employer/plan sponsor (e.g. HYDRO, HOOPP and WCB), the employer/plan sponsor or the pension fund governors should appoint a minority of plan members to its investment committee (R. 4.3).** • Because the pension fund underlies the security of pensions promised, plan members have a stake in pension fund investment decisions. • Involvement in investment decision making would improve plan member understanding and morale.	**The WCB should review its pension fund structure:** • **If a separate board is established to be responsible for the investment management of the WCB pension fund, a minority of board members should be plan members or their representatives.** • **If a separate board is not established, a minority of committee members on the Investment Advisory Committee should be plan members or their representatives for those matters involving the WCB pension fund (R. 13.1).**	• Board supports plan member representation on the investment committee. The nature and extent of the representation should be worked out by the parties involved.
		• **The WCB Board, the Investment Committee and the Investment Advisory Committee should make a clear separation in their decisions between the WCB accident fund and the WCB pension fund (R. 13.2).**	• Board believes that there should be a clear separation in the investment policy and accounts of the two funds. Separate investment managers may not be necessary.
WCB STREAMLINE GOVERNMENT DECISION-MAKING PROCESS		• **The decision-making process within the Ontario Government for considering changes to WCB pension benefit levels should be streamlined (R. 13.3).**	• Board concurs with this recommendation. • This same recommendation could be made for all the public plans.

APPENDIX E

LIST OF BRIEFS RECEIVED

from Interested Parties

Canadian Union of Public Employees *(CUPE)*

International Brotherhood of Electrical Workers *(IBEW)*

Ministry of Energy - *Acknowledgement letter only*

Ministry of Health - *Verbal acknowledgement only*

Ministry of Labour - *Verbal acknowledgement only*

Ontario Hospital Association *(OHA)*

Ontario Hydro *(HYDRO)*

Ontario Municipal Employees Retirement Board *(OMERS Board)*

Ontario Nurses' Association *(ONA)*

Ontario Public Service Employees Union *(OPSEU)*

Ontario Professional Fire Fighters Association *(OPFFA)*

Police Association of Ontario *(PAO)*

The Society of Ontario Hydro Professional and Administrative Employees *(The Society)*

Workers' Compensation Board *(WCB)*

APPENDIX F

SUMMARY CHARTS OF BRIEFS

THE PENSION DEAL (Chapter 3)

Briefs submitted by: *Unions/Employee Representatives*	***Recommendation 3.1*** ***The Pension Deal - Surplus Ownership***	
σ **CUPE/OPSEU**	D ☛	because surplus belongs to pensioners/deferreds/plan members ~ but guidelines on treatment of pension fund surpluses likely produce more useful results than deciding ownership
σ **IBEW**	D ☛	because plan works, don't change it
σ **Ontario Nurses Association**	A ☞	but surpluses belong to plan members/retirees
σ **Ontario Professional Fire Fighter Association**	D ☛	because plan works, don't change it
σ **Police Association of Ontario**	D ☛	because employees contribute they have right to surplus ~ plan works don't change it
σ **The Society (Hydro)**	A ☞	but surplus belongs to plan members/pensioners/beneficiaries
Government/Employer Representatives		
∇ **Ontario Hospital Association**	A ☞	but difficult to see how this might be achieved
∇ **Ontario Hydro**	A ☞	but surplus belongs to employer in defined benefit plan ~ clarify that withdrawal of surplus and surplus used to reduce employer contributions are separate and distinct issues
∇ **OMERS Board**	A ☞	but OMERS Board questions wisdom of having to articulate ownership ~ although welcomes government leadership
∇ **Workers' Compensation Board**	A ☞	but surplus belongs to employer because they contribute to fund and bear all risk ~ guarantees plan member benefits

D ☛ = *Disagree* **A ☞** = *Agree*

** Acknowledged but no briefs by Ministries of Colleges & Universities, Energy, Health and Labour

Briefs submitted by: *Unions/Employee Representatives*	**Recommendation 3.1** **The Pension Deal - Changing the Deal**	
σ CUPE/OPSEU		no comment
σ IBEW	D ☛	because plan works, don't change it
σ Ontario Nurses Association	A ☛	no elaboration
σ Ont Professional Fire Fighter Assoc.		no comment
σ Police Association of Ontario		no comment
σ The Society (Hydro)	A ☛	no elaboration
Government/Employer Representatives		
∇ Ontario Hospital Association	A ☛	but mechanisms exist to handle this should it ever arise
∇ Ontario Hydro	A ☛	plan well designed, well managed ~ rights and benefits, including employee contribution level negotiated
∇ OMERS Board	A ☛	no elaboration
∇ Workers' Compensation Board		no comment

Briefs submitted by: *Unions/Employee Representatives*	**Recommendation 3.3** **The Pension Deal - Negotiations/Total Compensation Approach**	
σ CUPE/OPSEU	D ☛	because pension deal must be subject to collective bargaining ~ analysis ignores economic risk faced by employees i.e. employers will pass on cost of deficits to employees in later decisions on compensation
σ IBEW		no comment
σ Ontario Nurses Association	A ☛	but plan must be negotiable ~ pensions always viewed by union as part of total compensation
σ Ont Professional Fire Fighter Assoc.	A ☛	but not done historically due to inflation restraint policy
σ Police Association of Ontario		no comment
σ The Society (Hydro)	A ☛	no elaboration
Government/Employer Representatives		
∇ Ontario Hospital Association	A ☛	but difficult to implement in MEPP environment
∇ Ontario Hydro	A ☛	benefit component should measure the value of benefits to employees rather than the cost of pension plan benefits
∇ OMERS Board	A ☛	but difficult to implement in MEPP environment
∇ Workers' Compensation Board	A ☛	but cautions against: linking surplus/deficit to plan member contributions, arbitration process, separate pension plans etc.

PENSION FUND STRUCTURE (Chapter 4)

Briefs submitted by: Unions/Employee Representatives	Recommendation 4.1 — The Pension Deal - Appointing Pension Fund Governors	
σ CUPE/OPSEU	D ☛	because minority employee representation not an acceptable starting point ~ request negotiation over pension fund structure and management
σ IBEW		no comment
σ Ontario Nurses Association	D ☛	because there should be mandatory co-management of pension plans, in administration and investment management
σ Ont Professional Fire Fighter Assoc.		no comment
σ Police Association of Ontario		no comment
σ The Society (Hydro)	A ☛	supports planned pension advisory committee
Government/Employer Representatives		
∇ Ontario Hospital Association	A ☛	currently under consideration
∇ Ontario Hydro		no comment
∇ OMERS Board		no comment
∇ Workers' Compensation Board		no comment

Briefs submitted by: Unions/Employee Representatives	Recommendation 4.2 — Structure if Fund Separate from Employer/Sponsor	
σ CUPE/OPSEU	D ☛	because present balance of OMERS Board is appropriate ~ although should expand Board to include at least one OMERS retiree
σ IBEW	D ☛	because OMERS Board functions well with present division of representation
σ Ontario Nurses Association		no comment
σ Ont Professional Fire Fighter Assoc.	D ☛	because OMERS Board membership provides a balance of interests
σ Police Association of Ontario	D ☛	because OMERS Board is receptive and responsible ~ PAO vehemently opposes any change in its composition
σ The Society (Hydro)		no comment
Government/Employer Representatives		
∇ Ontario Hospital Association		no comment
∇ Ontario Hydro		no comment
∇ OMERS Board	D ☛	because current balance of membership adequate and appropriate
∇ Workers' Compensation Board		no comment

Briefs submitted by: *Unions/Employee Representatives*	***Recommendation 4.3*** ***Structure if Fund Not Separate from Employer/Sponsor***
σ CUPE/OPSEU	D ☛ because oppose only minority employee representation on governing boards
σ IBEW	no comment
σ Ontario Nurses Association	no comment
σ Ont Professional Fire Fighter Assoc.	no comment
σ Police Association of Ontario	no comment
σ The Society (Hydro)	A ☛ but request more than minority representation (union or employee representative) on Investment Committee
Government/Employer Representatives	
∇ Ontario Hospital Association	A ☛ being considered ~ but investment policy must continue to be based on sound financial considerations ~ social investing not appropriate
∇ Ontario Hydro	no comment
∇ OMERS Board	no comment
∇ Workers' Compensation Board	no comment

Briefs submitted by: *Unions/Employee Representatives*	***Recommendation 4.4*** ***Fund Clearly Separate from Employer/Employee***	***Recommendation 4.5*** ***Non-Centralized Funds***
σ CUPE/OPSEU	no comment	A ☛ that further centralization should not occur
σ IBEW	no comment	no comment
σ Ontario Nurses Assoc.	no comment	no comment
σ Ont Pro Fire Fighter Assoc.	no comment	no comment
σ Police Assoc. of Ontario	no comment	no comment
σ The Society (Hydro)	A ☛ no elaboration	A ☛ no elaboration
Government/Employer Representatives		
∇ Ontario Hospital Assoc.	A ☛ no elaboration	A ☛ no elaboration
∇ Ontario Hydro	D ☛ because pension fund has own set of trustees and Investment Committee ~ employees and corporation benefit from a dedicated professional staff	no comment
∇ OMERS Board	no comment	A ☛ no elaboration
∇ Workers' Compensation Board	no comment	A ☛ no elaboration

Briefs submitted by: *Unions/Employee Representatives*	Recommendation 4.6 Pooling Assets	Recommendation 4.7 Internal or External Investment Managers	Recommendation 4.8 Compensation for Internal Investment Managers
σ CUPE/OPSEU	no comment	no comment	no comment
σ IBEW	no comment	no comment	no comment
σ Ontario Nurses Assoc.	no comment	no comment	no comment
σ Ont Pro Fire Fighter Assoc.		no comment	no comment
σ Police Assoc. of Ontario	no comment	no comment	no comment
σ The Society (Hydro)	A ☞ no elaboration	A ☞ no elaboration	A ☞ no elaboration
Government/Employer Representatives			
∇ Ontario Hospital Association	A ☞ pooling is desirable and efficient only if there are common investment policies and goals	A ☞ no elaboration	A ☞ no elaboration
∇ Ontario Hydro	no comment	no comment	
∇ OMERS Board	no comment	no comment	
∇ Workers' Compensation Board	no comment	no comment	

INVESTMENT POLICY (Chapter 5)

Briefs submitted by: Unions/Employee Representatives	Recommendation 5.1 Accountability of Pension Fund Gov'rs	Recommendation 5.2 Full Disclosure of Fund Information	Recommendation 5.3 Only Market Investments
σ CUPE/OPSEU	no comment	no comment	no comment
σ IBEW	no comment	no comment	no comment
σ Ontario Nurses Assoc.	no comment	A ☞ available and accessible to plan members and their unions or representatives at all times	no comment
σ Ont Pro Fire Fighter Assoc.	A ☞ no elaboration	A ☞ no elaboration	A ☞ no elaboration
σ Police Assoc. of Ontario	no comment	no comment	A ☞ without centralization but under rules for private sector pension funds
σ The Society (Hydro)	A ☞ no elaboration	A ☞ no elaboration	A ☞ no elaboration
Government/Employer Representatives			
∇ Ontario Hospital Assoc.	A ☞ statement of investment policies and goals (PBA) will assist in this process	A ☞ no elaboration	A ☞ no elaboration
∇ Ontario Hydro	no comment	no comment	no comment
∇ OMERS Board	no comment	no comment	A ☞ no elaboration
∇ Workers' Comp. Board	no comment	no comment	no comment

Briefs submitted by: Unions/Employee Representatives	Recommendation 5.5 Government Directed Investments	Recommendation 5.6 Raising Foreign Property Limit
σ CUPE/OPSEU	D ☞ because government has right to impose conditions on all pension plans requiring them to contribute to specified social objectives	D ☞ because pension fund contributions and earnings enjoy significant tax advantages – government should encourage domestic growth
σ IBEW	no comment	no comment
σ Ontario Nurses Association	no comment	no comment
σ Ont Pro Fire Fighter Assoc.	A ☞ no elaboration	A ☞ no elaboration
σ Police Association of Ontario	no comment	no comment
σ The Society (Hydro)	A ☞ no elaboration	A ☞ no elaboration
Government/Employer Representatives		
∇ Ontario Hospital Association	A ☞ no elaboration	A ☞ diversification of pension fund assets internationally is a prudent investment strategy
∇ Ontario Hydro	no comment	no comment
∇ OMERS Board	no comment	no comment
∇ Workers' Compensation Board	A ☞ but could allow social or other investing subject to pension fund governors' decisions	no comment

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (OMERS)

Briefs submitted by : *Unions/Employee Representatives*	*Recommendation 10.1* **Changing the Written Pension Deal to Comply with Practice**	*Recommendation 10.1* **Changing Practice to Comply with Written**
σ CUPE/OPSEU	D ☛ Plan works, don't change it - Ignores risk that employees already bear ~ Taxpayer's interest already being considered - further consideration may affect negotiations ~	
σ IBEW	D ☛ Plan works, don't change it	D ☛ What improvements can be made in the future if surplus returned to taxpayer?
σ Ontario Professional Fire Fighters Assoc.	D ☛ Plan works, don't change it ~ Taxpayer's interest already being considered ~	D ☛ Opposes regressive alterations to plan
σ Police Association of Ontario	D ☛ Plan works, don't change otherwise threatens good employee/employer relations ~ Taxpayer's interests already being considered ~	
Government/Employer Representative		
∇ OMERS Board	D ☛ Plan works, don't change it - Any surplus distribution should be on some sort of shared basis ~ Taxpayer's interest already being considered ~	

COLLEGES OF APPLIED ARTS & TECHNOLOGY PENSION PLAN (CAAT)

Briefs submitted by : *Unions/Employee Representatives*	*Rec. 10.3* **Clarify Roles and Responsibilities**	*Rec. 10.4* **Change Contractual Relationship with OMERS**	*Rec. 10.5* **OMERS Act - Mandatory**	*Rec. 10.6* **OMERS Act - Permissive**
σ OPSEU	A ☛ We believe that it is necessary	A ☛ The cost matter bears thorough review	D ☛ Trustee selection should be resolved by the parties involved	A ☛ Trustee should provide high quality competitive services
Government/Employer Representative				
∇ OMERS Board	~ No position but request government directions as soon as possible (systems, investing, planning) ~			

ONTARIO HYDRO PENSION PLAN (HYDRO)

Briefs submitted by: *Unions/Employee Representatives*	*Recommendation 11.1* **Review Pension Fund Structure**	*Recommendation 11.2* **Governed by the Pension Benefits Act**	*Recommendation 11.3* **Remove Legislative Approval**
σ CUPE	A ☞ Request more than minority representation	A ☞ No elaboration	A ☞ Want full negotiability for all plan members, then remove government approval requirement
σ Society	A ☞ Request more than minority representation on Investment Committees	A ☞ No elaboration	A ☞ No elaboration
Government/Employer Representative			
∇ Ontario Hydro	D ☞ No need for plan member on Invest. Policy Cmmttee - will establish Pension Advisory Committee	A ☞ May lead to separate pension plans	A ☞ No elaboration

HOSPITALS OF ONTARIO PENSION PLAN (HOOPP)

Briefs submitted by: *Unions/Employee*	*Recommendation 12.1* **Savings used for Non-Pension Purposes**	*Recommendation 12.2* **Surplus to Employer on**	*Recommendation 12.3* **Plan member on Investment Committee**
σ CUPE/OPSEU	D ☞ Surplus to employees and maintain cushion	D ☞ Doubt if employers legally can unilaterally amend plan to claim surplus	D ☞ Members do not presently have an effective voice on HOOPP Board
σ ONA	D ☞ Surplus belongs to employees	D ☞ Surplus belongs to employees, retirees also have a stake	A ☞ Request at least equal representation in administration & investment management
	~ Taxpayer's interest already being considered - (reduces strain on social programs) ~		
Government/Employer Representative			
∇ OHA	A ☞ OHA wants to keep all savings in system for capital investment - had discussions with Ministry to this end	A ☞ But not sure how to achieve it - (request government leadership on surplus/PBA)	A ☞ Under active consideration

WORKERS' COMPENSATION BOARD (WCB)

Briefs submitted by: *Union/Employee Representative*	*Recommendation 13.1* **Review Pension Fund Structure**	*Recommendation 13.2* **Separate WCB Accident Fund and WCB Pension Fund Decisions**	*Recommendation 13.3* **Streamline Government Decision Making Process**
σ **CUPE**	A ☞ Request more than minority representation	No comment	D ☞ Want collective bargaining then remove government approval requirement
Government/Employer Representative			
∇ **Workers' Compensation Board**	A ☞ A separate board should be established - minority employee representation	A ☞ No elaboration	A ☞ No elaboration